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**MGT201 Important MCQ's Related to Finaltem Papers.**

Question # 1 of 15 ( Start time: 12:09:58 AM ) Total Marks: 1

An annuity due is always worth \_\_\_\_\_ a comparable annuity.

Select correct option:

Less than

More than

Equal to

Can not be found from the given information

Question # 2 of 15 ( Start time: 12:11:10 AM ) Total Marks: 1

Where the stock points will lie, if a stock is a part of totally diversified portfolio?

Select correct option:

It will lie below the regression line

It will lie above the regression line

It will lie exactly on the regression line

It will be tangent to the regression line

Question # 3 of 15 ( Start time: 12:11:47 AM ) Total Marks: 1

What is the easiest method to diversify away firm-specific risks?

Select correct option:

To buy stocks with a beta of 1.0

To build a portfolio with 5-10 individual stocks

To purchase the shares of a mutual fund

To purchase stocks that plot above the security market line

Question # 4 of 15 ( Start time: 12:12:23 AM ) Total Marks: 1

Nominal Interest Rate is also known as:

Select correct option:

Effective interest Rate

Annual percentage rate

Periodic interest rate

Required interest rate

Question # 5 of 15 ( Start time: 12:13:02 AM ) Total Marks: 1

When taxes are considered, the value of a levered firm equals the value of the \_\_\_\_\_.

Select correct option:

Unlevered firm

Unlevered firm plus the value of the debt

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Unlevered firm plus the present value of the tax shield

Unlevered firm plus the value of the debt plus the value of the tax shield

Question # 6 of 15 ( Start time: 12:14:15 AM ) Total Marks: 1

The \_\_\_\_\_ the coefficient of variation \_\_\_\_\_ the relative risk of the investment.

Select correct option:

Larger; Larger

Larger; Smaller

Smaller; Larger

Smaller; Smaller

Question # 7 of 15 ( Start time: 12:15:05 AM ) Total Marks: 1

Which of the following is correct regarding the opportunity cost of capital for a project?

Select correct option:

The opportunity cost of capital is the return that investors give up by investing in the project rather than in securities of equivalent risk.

Financial managers use the capital asset pricing model to estimate the opportunity cost of capital

The company cost of capital is the expected rate of return demanded by investors in a company

All of the given options

Question # 8 of 15 ( Start time: 12:15:46 AM ) Total Marks: 1

For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?

Select correct option:

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

Question # 9 of 15 ( Start time: 12:16:51 AM ) Total Marks: 1

What is difference between shares and bonds?

Select correct option:

Bonds are representing ownership whereas shares are not

Shares are representing ownership whereas bonds are not

Shares and bonds both represent equity

Shares and bond both represent liabilities

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Question # 10 of 15 ( Start time: 12:17:16 AM ) Total Marks: 1

Which of the followings expressed the proposition that the cost of equity is a positive linear function of capital structure?

Select correct option:

The Capital Asset Pricing Model

M&M Proposition I

**M&M Proposition II**

The Law of One Price

Question # 11 of 15 ( Start time: 12:17:57 AM ) Total Marks: 1

The current yield on a bond is equal to \_\_\_\_\_.

Select correct option:

**Annual interest divided by the current market price**

The yield to maturity

Annual interest divided by the par value

The internal rate of return

Question # 12 of 15 ( Start time: 12:18:40 AM ) Total Marks: 1

When a bond will sell at a discount?

Select correct option:

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

**The coupon rate is less than the current yield and the current yield is less than yield to maturity**

Question # 13 of 15 ( Start time: 12:19:17 AM ) Total Marks: 1

Which of the following formulas represents a correct calculation of the degree of operating leverage?

Select correct option:

$(Q - QBE)/Q$

$(EBIT) / (EBIT - FC)$

$[Q(P-V) + FC] / [Q(P-V)]$

**$Q(P-V) / [Q(P-V) - FC]$**

Question # 14 of 15 ( Start time: 12:19:31 AM ) Total Marks: 1

What are the Direct claim securities?

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Select correct option:

The securities whose value depends on the cash flows generated by the underlying assets

The securities whose value depends on the value of the underlying assets

The securities that do not directly generate any returns for its investors

All of the given options

Question # 15 of 15 ( Start time: 12:20:16 AM ) Total Marks: 1

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

Select correct option:

Life span of the project

Cost of the capital

Return on asset

None of the given options

Question # 2 of 15 ( Start time: 12:31:43 AM ) Total Marks: 1

In the dividend discount model, \_\_\_\_\_ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

Question # 3 of 15 ( Start time: 12:32:17 AM ) Total Marks: 1

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Question # 4 of 15 ( Start time: 12:32:41 AM ) Total Marks: 1

An implicit cost of adding debt to the capital structure is that it:

Select correct option:

Adds interest expense to the operating statement

Increases the required return on equity

Reduces the expected return on assets

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Decreases the firm's beta

Question # 5 of 15 ( Start time: 12:33:07 AM ) Total Marks: 1

Why common stock of a company must provide a higher expected return than the debt of the same company?

Select correct option:

There is less demand for stock than for bonds

There is greater demand for stock than for bonds

**There is more systematic risk involved for the common stock**

There is a market premium required for bonds

Question # 6 of 15 ( Start time: 12:33:38 AM ) Total Marks: 1

Which of the following is NOT an example of hybrid equity

Select correct option:

Convertible Bonds

Convertible Debenture

**Common shares**

Preferred shares

Question # 8 of 15 ( Start time: 12:34:40 AM ) Total Marks: 1

Which if the following is (are) true? I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

Select correct option:

I, II, and III

I only

**III only**

II and III only

Question # 9 of 15 ( Start time: 12:35:13 AM ) Total Marks: 1

If 2 stocks move in the same direction together then what will be the correlation coefficient?

Select correct option:

0

**1.0**

-1.0

1.5

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Question # 10 of 15 ( Start time: 12:35:38 AM ) Total Marks: 1

Total portfolio risk is \_\_\_\_\_.

Select correct option:

Equal to systematic risk plus non-diversifiable risk

Equal to avoidable risk plus diversifiable risk

Equal to systematic risk plus unavoidable risk

Equal to systematic risk plus diversifiable risk

Question # 11 of 15 ( Start time: 12:36:02 AM ) Total Marks: 1

Which of the following is related to the use Lower financial leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as \_\_\_\_\_.

Select correct option:

Probability distribution

Expected return

Standard deviation

Coefficient of variation

Question # 14 of 15 ( Start time: 12:37:22 AM ) Total Marks: 1

What would you expect to happen to the price of a share of stock on the day it goes ex-dividend?

Select correct option:

The price should increase by the amount of the dividend

The price should decrease by the amount of the dividend

The price should decrease by one-half the amount of the dividend

The price should remain constant

Question # 15 of 15 ( Start time: 12:38:07 AM ) Total Marks: 1

Which of the following would express the negative net worth of a firm?

Select correct option:

Experiencing a business failure

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In legal bankruptcy  
Experiencing technical insolvency  
Experiencing accounting insolvency

Question # 1 of 15 ( Start time: 12:43:28 AM ) Total Marks: 1  
Which of the following is NOT the type of Hybrid organizations?  
Select correct option:

S-Type Corporation  
Limited Liability Partnership  
Sole Proprietorship  
Professional Corporation

Question # 2 of 15 ( Start time: 12:44:16 AM ) Total Marks: 1  
Which of the following costs would be considered a fixed cost?  
Select correct option:

Raw materials  
Depreciation  
Bad-debt losses  
Production labor

Question # 3 of 15 ( Start time: 12:44:39 AM ) Total Marks: 1  
What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?  
Select correct option:

Indenture  
Debenture  
Bond  
Bond trustee

Question # 5 of 15 ( Start time: 12:45:30 AM ) Total Marks: 1  
Which of the following is similar between Return on investment and Payback period techniques of Capital budgeting?  
Select correct option:

Involvement of interest rate while making calculations  
Do not account for time value of money  
Tricky and complicated methods  
All of the given options

Question # 6 of 15 ( Start time: 12:45:59 AM ) Total Marks: 1

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Which of the following statements regarding covariance is correct?

Select correct option:

Covariance always lies in the range -1 to +1

Covariance, because it involves a squared value, must always be a positive number (or zero)

Low covariances among returns for different securities leads to high portfolio risk

Covariances can take on positive, negative, or zero values

Question # 7 of 15 ( Start time: 12:46:26 AM ) Total Marks: 1

How dividend yield on a stock is similar to the current yield on a bond?

Select correct option:

Both represent how much each security's price will increase in a year

Both represent the security's annual income divided by its price

Both are an accurate representation of the total annual return an investor can expect to earn by owning the security

Both are quarterly yields that must be annualized

Question # 10 of 15 ( Start time: 12:49:05 AM ) Total Marks: 1

\_\_\_\_\_ means expanding the number of investments which cover different kinds of stocks.

Select correct option:

Diversification

Standard deviation

Variance

Covariance

Question # 13 of 15 ( Start time: 12:50:41 AM ) Total Marks: 1

Where there is single period capital rationing, what is the most sensible way of making investment decisions?

Select correct option:

Choose all projects with a positive NPV

Group projects together to allocate the funds available and select the group of projects with the highest NPV

Choose the project with the highest NPV

Calculate IRR and select the projects with the highest IRRs

Question # 14 of 15 ( Start time: 12:51:15 AM ) Total Marks: 1

Which of the following is not a recognized approach for determining the cost of equity?

Select correct option:

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Dividend discount model approach  
**Before-tax cost of preferred stock plus risk premium approach**  
Capital-asset pricing model approach  
Before-tax cost of debt plus risk premium approach

Question # 15 of 15 ( Start time: 12:52:03 AM ) Total Marks: 1  
Which of the following is the characteristic of a well diversified portfolio?  
Select correct option:

Its market risk is negligible  
**Its unsystematic risk is negligible**  
Its systematic risk is negligible  
All of the given options

Question # 1 of 15 ( Start time: 12:55:10 AM ) Total Marks: 1  
Which of the following would be considered a cash-flow item from an "operating" activity?  
Select correct option:

**Cash outflow to the government for taxes**  
Cash outflow to shareholders as dividends  
Cash inflow to the firm from selling new common equity shares  
Cash outflow to purchase bonds issued by another company

Question # 2 of 15 ( Start time: 12:55:39 AM ) Total Marks: 1  
Which of the following is an example of restructuring the firm?  
Select correct option:

Dividends are increased from Rs.1 to Rs.2 per share  
A new investment increases the firm's business risk  
**New equity is issued and the proceeds repay debt**  
A new Board of Directors is elected to the firm

Question # 3 of 15 ( Start time: 12:56:20 AM ) Total Marks: 1  
The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around \_\_\_\_\_ in interest.  
Select correct option:

Rs.840  
**Rs.858**  
Rs.1,032  
Rs.1,121

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$\{ [ 1 + (.056/360) ] ^ [270] - 1 \} = .042891$  or 4.2891%. Thus, \$20,000 (.042891) = \$857.82.

Question # 5 of 15 ( Start time: 12:57:23 AM ) Total Marks: 1

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily?

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

Debt-to-equity ratio

Question # 6 of 15 ( Start time: 12:57:53 AM ) Total Marks: 1

Which of the following is the cash required during a specific period to meet interest expenses and principal payments?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 7 of 15 ( Start time: 12:58:21 AM ) Total Marks: 1

\_\_\_\_\_ are also known as Spontaneous Financing.

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Question # 9 of 15 ( Start time: 12:59:12 AM ) Total Marks: 1

Which of the following factors might affect stock returns?

Select correct option:

Business cycle

Interest rate fluctuations

Inflation rates

All of the above

Question # 10 of 15 ( Start time: 12:59:37 AM ) Total Marks: 1

Which of the following is/are the characteristic(s) of Perpetuity?

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Select correct option:

- It is an annuity
- It has no definite end
- It is a constant stream of identical cash flows
- All of the given options

Question # 11 of 15 ( Start time: 01:00:09 AM ) Total Marks: 1

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

- Payback period
- Internal rate of return
- Net present value
- Profitability index

Question # 12 of 15 ( Start time: 01:00:45 AM ) Total Marks: 1

Choose among the followings, the correct statement regarding every journal entry.

Select correct option:

- Sum of Debits = Sum of Credits
- Sum of Debits > Sum of Credits
- Sum of Debits < Sum of Credits
- None of the given options

Question # 14 of 15 ( Start time: 01:01:42 AM ) Total Marks: 1

Which of the following formula relates beta of the stock to the standard deviation?

Select correct option:

- Covariance of stock with market \* variance of the market
- Covariance of stock with market / variance of the market
- Variance of the market / Covariance of stock with market
- Slope of the regression line

Question # 15 of 15 ( Start time: 01:02:44 AM ) Total Marks: 1

Which of the following is/are the component(s) of working capital management?

Select correct option:

- Current assets
- Fixed assets
- Fixed assets and long-term liabilities

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**Current assets and current liabilities**

Question # 2 of 15 ( Start time: 01:08:30 AM ) Total Marks: 1

Which of the following affects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

Question # 3 of 15 ( Start time: 01:09:06 AM ) Total Marks: 1

Why a single, overall cost of capital is often used to evaluate projects?

Select correct option:

It avoids the problem of computing the required rate of return for each investment

Proposal

It is the only way to measure a firm's required return

It acknowledges that most new investment projects have about the same degree of risk

It acknowledges that most new investment projects offer about the same expected return

Question # 4 of 15 ( Start time: 01:10:30 AM ) Total Marks: 1

Security market line gives the relationship between \_\_\_\_\_ and \_\_\_\_\_.

Select correct option:

Market risk and the required return

Systematic risk and the required return

Non-diversified risk and the required return

All of the given options

Question # 5 of 15 ( Start time: 01:11:00 AM ) Total Marks: 1

Above the breakeven EBIT, increased financial leverage will \_\_\_\_\_ EPS, all else the same. Assume there are no taxes

Select correct option:

Increase

Decrease

Either increase or decrease

None of the given options

Question # 6 of 15 ( Start time: 01:11:40 AM ) Total Marks: 1

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has \_\_\_\_\_.

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Select correct option:

An anticipated earnings growth rate which is less than that of the average firm  
**A dividend yield which is less than that of the average firm**  
Less predictable earnings growth than that of the average firm  
Greater cyclical of earnings growth than that of the average firm

Question # 13 of 15 ( Start time: 01:16:04 AM ) Total Marks: 1

Consider two bonds, A and B. Both bonds presently are selling at their par value of Rs. 1,000. Each pays interest of Rs. 120 annually. Bond A will mature in 5 years while bond B will mature in 6 years. If the yields to maturity on the two bonds change from 12% to 10%, \_\_\_\_\_.

Select correct option:

Both bonds will increase in value, but bond A will increase more than bond B  
**Both bonds will increase in value, but bond B will increase more than bond A**  
Both bonds will decrease in value, but bond A will decrease more than bond B  
Both bonds will decrease in value, but bond B will decrease more than bond A

Question # 14 of 15 ( Start time: 01:16:51 AM ) Total Marks: 1

Coefficient of variation is NOT the measure of \_\_\_\_\_.

Select correct option:

Risk  
**Probability**  
Relative dispersion  
Risk per unit of expected return

Question # 15 of 15 ( Start time: 01:18:02 AM ) Total Marks: 1

The value of a bond is directly derived from which of the following?

Select correct option:

Cash flows  
Coupon receipts  
Par recovery at maturity  
**All of the given options**

Question # 1 of 15 ( Start time: 01:20:44 AM ) Total Marks: 1

Which of the following is as EBIT?

Select correct option:

Funds provided by operations  
Earnings before taxes

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Net income  
Operating profit

Question # 2 of 15 ( Start time: 01:21:10 AM ) Total Marks: 1  
What is the difference between economic profit and accounting profit?  
Select correct option:

Economic profit includes a charge for all providers of capital while accounting profit includes only a charge for debt  
Economic profit covers the profit over the life of the firm, while accounting profit only covers the most recent accounting period  
Accounting profit is based on current accepted accounting rules while economic profit is based on cash flows  
**All of the given options are correct**

Question # 3 of 15 ( Start time: 01:21:52 AM ) Total Marks: 1  
The overall (weighted average) cost of capital is composed of weighted averages of which of the following?  
Select correct option:

The cost of common equity and the cost of debt  
The cost of common equity and the cost of preferred stock  
The cost of preferred stock and the cost of debt  
**The cost of common equity, the cost of preferred stock, and the cost of debt**

Question # 5 of 15 ( Start time: 01:23:06 AM ) Total Marks: 1  
What is the traditional approach towards the valuation of a company?  
Select correct option:

The cost of capital is independent of the capital structure of the firm  
The firm maintains constant risk regardless of the type of financing employed  
There exists no optimal capital structure  
**That management can increase the total value of the firm through the judicious use of financial leverage**

Question # 9 of 15 ( Start time: 01:26:10 AM ) Total Marks: 1  
What is the expected return of a zero-beta security?  
Select correct option:

**The risk-free rate**  
Zero rate of return  
A negative rate of return  
The market rate of return

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Question # 10 of 15 ( Start time: 01:27:19 AM ) Total Marks: 1

What is yield to maturity on a bond?

Select correct option:

Below the coupon rate when the bond sells at a discount, and equal to the coupon rate when the bond sells at a premium

The discount rate that will set the present value of the payments equal to the bond price

Based on the assumption that any payments received are reinvested at the coupon rate

None of the above

Question # 11 of 15 ( Start time: 01:27:48 AM ) Total Marks: 1

What is the present value of Rs.8,000 to be paid at the end of three years if interest rate is 11%?

Select correct option:

Rs.6,015

Rs.4,872

Rs.6,725

Rs.1,842

Question # 12 of 15 ( Start time: 01:28:08 AM ) Total Marks: 1

\_\_\_\_\_ is paid by companies with lower grade bonds like CC or C ratings.

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 13 of 15 ( Start time: 01:28:43 AM ) Total Marks: 1

If we were to increase ABC company cost of equity assumption, what would we expect to happen to the present value of all future cash flows?

Select correct option:

An increase

A decrease

No change

Incomplete information

Question # 15 of 15 ( Start time: 01:29:53 AM ) Total Marks: 1

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant

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annuity stream?

Select correct option:

Long-term debt

Preferred stock

Common stock

None of the given options

Question # 2 of 15 ( Start time: 01:33:23 AM ) Total Marks: 1

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

Rs. 250.44

Rs. 231.91

Rs.181.62

Rs.184.08

Question # 4 of 15 ( Start time: 01:34:17 AM ) Total Marks: 1

For most firms, P/E ratios and risk\_\_\_\_\_.

Select correct option:

Will be directly related

Will have an inverse relationship

Will be unrelated

None of the above.

Question # 5 of 15 ( Start time: 01:34:43 AM ) Total Marks: 1

Which of the following is the expected cash dividend that is normally paid to shareholders?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

Question # 6 of 15 ( Start time: 01:35:25 AM ) Total Marks: 1

In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?

Select correct option:

Common stock

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Debt

Preferred stock

None of the above

Question # 7 of 15 ( Start time: 01:35:55 AM ) Total Marks: 1

Which of the following is NOT an example of a financial intermediary?

Select correct option:

Wisconsin S&L, a savings and loan association

Strong Capital Appreciation, a mutual fund

**Microsoft Corporation, a software firm**

College Credit, a credit union

Question # 8 of 15 ( Start time: 01:36:18 AM ) Total Marks: 1

Which of the following stipulate a relationship between expected return and risk?

Select correct option:

APT stipulates

CAPM stipulates

**Both CAPM and APT stipulate**

Neither CAPM nor APT stipulate

Question # 10 of 15 ( Start time: 01:36:59 AM ) Total Marks: 1

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

**The market price per share of the firm's common stock**

The amount of salary paid to its employees

Question # 11 of 15 ( Start time: 01:37:30 AM ) Total Marks: 1

The stock in your portfolio was selling for Rs.40 per share yesterday, but has today declared a three for two split. Which of the following statements seems to be true?

Select correct option:

There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each

There will be four times as many shares outstanding, and they will sell for Rs.160.00 each

**There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each**

There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

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Question # 14 of 15 ( Start time: 01:39:17 AM ) Total Marks: 1

How the beta of the stock could be calculated?

Select correct option:

By monitoring price of the stock

By monitoring rate of return of the stock

By comparing the changes in the stock market price to the changes in the stock market index

All of the given options

It is experimentally possible to calculate beta of the stock by monitoring the price or rate of return of the stock and at the same time monitoring the market index in the same period of time & comparing that how the changes in the stock market price relate to the changes in the stock market index.

Question # 15 of 15 ( Start time: 01:39:42 AM ) Total Marks: 1

Which of the following refers to the cost of taking up one option while sacrificing the other?

Select correct option:

Opportunity cost

Operating cost

Sunk cost

Floation cost

Question # 7 of 15 ( Start time: 01:45:28 AM ) Total Marks: 1

Which of the following is related to the use of higher operating leverage?

Select correct option:

Fixed costs

Variable costs

Debt financing

Common equity financing

Question # 9 of 15 ( Start time: 01:46:27 AM ) Total Marks: 1

Which statement is NOT true regarding the market portfolio?

Select correct option:

It includes all publicly traded financial assets

It is the tangency point between the capital market line and the indifference curve

All securities in the market portfolio are held in proportion to their market values

It lies on the efficient frontier

Question # 10 of 15 ( Start time: 01:47:18 AM ) Total Marks: 1

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Who determine the market price of a share of common stock?

Select correct option:

The board of directors of the firm

The stock exchange on which the stock is listed

The president of the company

Individuals buying and selling the stock

Question # 12 of 15 ( Start time: 01:48:19 AM ) Total Marks: 1

When the zero coupon bond approaches to its maturity, the market value of the bond approaches to which of the following?

Select correct option:

Intrinsic value

Book value

Par value

Historic cost

Question # 14 of 15 ( Start time: 01:49:35 AM ) Total Marks: 1

If stock is a part of totally diversified portfolio then its company risk must be equal to:

Select correct option:

0

0.5

1

-1

Question # 6 of 15 ( Start time: 01:57:52 AM ) Total Marks: 1

If we invest in many securities which are \_\_\_\_\_ to each other then it is possible to reduce overall risk for your investment.

Select correct option:

Comparable

Correlated

Highly correlated

Negatively correlated

Question # 7 of 15 ( Start time: 01:58:38 AM ) Total Marks: 1

Which of the following is the general assumption of Percent of Sales Forecasting?

Select correct option:

Current Assets usually grow in proportion to Revenues

Current Assets usually grow in proportion to Expenses

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Current Assets usually grow in proportion to Liabilities

**Current Assets usually grow in proportion to Sales**

Question # 10 of 15 ( Start time: 02:00:32 AM ) Total Marks: 1

When Investors want high plowback ratios?

Select correct option:

**Whenever  $ROE > k$**

Whenever  $k > ROE$

Only when they are in low tax brackets

Whenever bank interest rates are high

Question # 13 of 15 ( Start time: 02:02:28 AM ) Total Marks: 1

Investors may be willing to pay a premium for stable dividends because of the informational content of \_\_\_\_\_, the desire of investors for \_\_\_\_\_, and certain \_\_\_\_\_.

Select correct option:

Institutional considerations; dividends; current income

**Dividends; current income; institutional considerations**

Current income; dividends; institutional considerations

Institutional considerations; current income; dividends

Question # 14 of 15 ( Start time: 02:03:21 AM ) Total Marks: 1

Which of the following statements is TRUE regarding Permanent Accounts?

Select correct option:

Accounts that are found on Income Statement

Accounts that are found on Statement of Retained Earnings

**Accounts that are found on Balance Sheet**

All of the given options

Question # 15 of 15 ( Start time: 02:03:58 AM ) Total Marks: 1

Which of the following is the percentage of interest charged at each compounding time?

Select correct option:

Nominal interest Rate

Effective interest Rate

Annual percentage rate

**Periodic interest rate**

Question # 10 of 15 ( Start time: 02:08:16 AM ) Total Marks: 1

Which of the following is NOT true regarding the capital market?

Select correct option:

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Where long-term funds can be raised  
Money is invested for periods longer than a year  
Where TFCs and NIT are exchanged and traded  
Where overnight lending & borrowing takes place

Question # 12 of 15 ( Start time: 02:08:57 AM ) Total Marks: 1

Which of the following shows ALL possible Risk –Return combinations for All combinations of the stocks in the portfolio- whether efficient or not.

Select correct option:

Parachute graph

Capital market line

Security market line

All of the given options

Question # 15 of 15 ( Start time: 02:10:08 AM ) Total Marks: 1

Which of the following statements (in general) is correct?

Select correct option:

A low receivables turnover is desirable

The lower the total debt-to-equity ratio, the lower the financial risk for a firm

An increase in net profit margin with no change in sales or assets means a weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Question # 1 of 15 ( Start time: 04:44:56 AM ) Total Marks: 1

Which of the following is NOT The cost of equity?

Select correct option:

The minimum rate that a firm should earn on the equity-financed part of an investment

A return on the equity-financed portion of an investment that, at worst, leaves the market price of the stock unchanged

By far the most difficult component cost to estimate

Generally lower than the before-tax cost of debt

Question # 2 of 15 ( Start time: 04:46:12 AM ) Total Marks: 1

Which of the following statements is true?

Select correct option:

The financial risk of a firm decreases when it takes on a risky project

The financial risk of a firm increases when it takes on more equity

The business risk of a firm increases when it takes on a risky project

The business risk of a firm increases when it takes on more debt

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Question # 3 of 15 ( Start time: 04:47:15 AM ) Total Marks: 1

Why markets and market returns fluctuate?

Select correct option:

- Because of political factors
- Because of social factors
- Because of socio-political factors
- Because of macro systematic factors**

Question # 5 of 15 ( Start time: 04:48:01 AM ) Total Marks: 1

Study the time line and accompanying 5-period cash-flow pattern below

Time line |-----|-----|-----|-----|-----| Rs.10 Rs.10 Rs.10 Rs.10 Rs.10

Cash flows | | A B The present value of the 5-period annuity shown above as of Point A is the present value of a 5-period \_\_\_\_\_, whereas the future value of the same annuity as of Point B is the future value of a 5-period \_\_\_\_\_.

Select correct option:

- Ordinary annuity; ordinary annuity
- Ordinary annuity; annuity due
- Annuity due; annuity due**
- Annuity due; ordinary annuity

Question # 6 of 15 ( Start time: 04:48:26 AM ) Total Marks: 1

Which group of ratios shows the extent to which the firm is financed with debt?

Select correct option:

- Liquidity ratios
- Debt ratios**
- Coverage ratios
- Profitability ratios

Question # 8 of 15 ( Start time: 04:49:14 AM ) Total Marks: 1

Which of the following is NOT an example of hybrid equity

Select correct option:

- Convertible Bonds
- Convertible Debenture
- Common shares**
- Preferred shares

Question # 10 of 15 ( Start time: 04:49:38 AM ) Total Marks: 1

Which of the following equation is NOT correct?

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Select correct option:

Gross Revenue – Admin & Operating Expenses = Operating Revenue  
Other Expenses + Other Revenue = EBIT  
EBIT – Financial Charges & Interest = EBT  
Net Income – Dividends = Retained Earning

Question # 13 of 15 ( Start time: 04:50:20 AM ) Total Marks: 1

Which of the following is type a Temporary Account?

Select correct option:

Asset  
Liability  
Reserves  
Revenue

Question # 14 of 15 ( Start time: 04:50:38 AM ) Total Marks: 1

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

Default risk premium  
Sovereign Risk Premium  
Market risk premium  
Maturity risk premium  
Risk associated with interest rate uncertainty. The longer the time to maturity, the higher the premium.

Question # 15 of 15 ( Start time: 04:50:53 AM ) Total Marks: 1

A statistical measure of the variability of a distribution around its mean is referred to as \_\_\_\_\_.

Select correct option:

Probability distribution  
Expected return  
Standard deviation  
Coefficient of variation

Question # 3 of 15 ( Start time: 04:57:42 AM ) Total Marks: 1

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated  
Securities' returns are uncorrelated

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Securities' returns are high

Securities' returns are negatively correlated

Question # 5 of 15 ( Start time: 04:58:09 AM ) Total Marks: 1

Which of the following is called the tax savings of the firm derived from the deductibility of interest expense?

Select correct option:

Interest tax shield

Depreciable basis

Financing umbrella

Current yield

Question # 8 of 15 ( Start time: 05:00:00 AM ) Total Marks: 1

If risk and return combination of any stock is above the SML, what does it mean?

Select correct option:

It is offering lower rate of return as compared to the efficient stock

It is offering higher rate of return as compared to the efficient stock

Its rate of return is zero as compared to the efficient stock

It is offering rate of return equal to the efficient stock

Question # 10 of 15 ( Start time: 05:01:01 AM ) Total Marks: 1

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

Debt capacity

Debt-service burden

Adequacy capacity

Fixed-charge burden

Question # 12 of 15 ( Start time: 05:01:24 AM ) Total Marks: 1

Which of the following is a payment of additional shares to shareholders in lieu of cash?

Select correct option:

Stock split

Stock dividend

Extra dividend

Regular dividend

Question # 13 of 15 ( Start time: 05:02:08 AM ) Total Marks: 1

According to MM II, what happens when a firm's debt-to-equity ratio increases?

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Select correct option:

- Its financial risk increases
- Its operating risk increases
- The expected return on equity increases
- The expected return on equity decreases

Question # 15 of 15 ( Start time: 05:04:29 AM ) Total Marks: 1

Which of the following includes the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization?

Select correct option:

- Financial accounting
- Financial management
- Financial engineering
- Financial budgeting

Question # 1 of 15 ( Start time: 05:23:24 AM ) Total Marks: 1

\_\_\_\_\_ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

Select correct option:

- Systematic risk
- Standard deviation
- Unsystematic risk
- Coefficient of variation

Question # 2 of 15 ( Start time: 05:23:47 AM ) Total Marks: 1

Which of the following is NOT the step of Percentage of sales to be used in Financial Forecasting?

Select correct option:

- Estimate year-by-year Sales Revenue and Expenses
- Estimate Levels of Investment Needs required to Meet Estimated Sales
- Estimate the Financing Needs
- Estimate the retained earnings

Question # 6 of 15 ( Start time: 05:24:47 AM ) Total Marks: 1

Which of the following can be used to calculate the risk of the larger portfolio?

Select correct option:

- Standard deviation
- EPS approach

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**Matrix approach**

Gordon's Approach

Question # 7 of 15 ( Start time: 05:25:05 AM ) Total Marks: 1

The risk that covers events like unexpected changes in the economy refers to:

Select correct option:

**Systematic risk**

Unsystematic risk

Total risk

All of the above

Question # 12 of 15 ( Start time: 05:26:03 AM ) Total Marks: 1

Which of the following would NOT be the part of the risk if the stock is a single stock investment?

Select correct option:

Company specific risk

Un-diversifiable risk

**Diversifiable risk**

Random risk

Question # 14 of 15 ( Start time: 05:26:38 AM ) Total Marks: 1

The explicit costs associated with corporate default, such as legal expenses, are the \_\_\_\_\_ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

**Direct bankruptcy costs**

Indirect bankruptcy costs

Question # 15 of 15 ( Start time: 05:27:45 AM ) Total Marks: 1

Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

Select correct option:

Discount rate

**Profitability index**

Internal rate of return

Multiple Internal rate of return

Question # 2 of 15 ( Start time: 05:35:48 AM ) Total Marks: 1

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What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

The default premium is paid by companies with lower grade bonds or by individuals with poor credit. As an illustration, companies with poor financials will tend to compensate investors for the additional risk by issuing bonds with high yields. Individuals with poor credit must pay higher interest rates in order to borrow money from the bank.

Question # 4 of 15 ( Start time: 05:36:22 AM ) Total Marks: 1

The logic behind \_\_\_\_\_ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

Select correct option:

IRR

MIRR

PV

NPV

Question # 8 of 15 ( Start time: 05:37:23 AM ) Total Marks: 1

What is the most important criteria in capital budgeting?

Select correct option:

Return on investment

Profitability index

Net present value

Pay back period

Question # 9 of 15 ( Start time: 05:37:43 AM ) Total Marks: 1

The value of the bond is NOT directly tied to the value of which of the following assets?

Select correct option:

Real assets of the business

Liquid assets of the business

Fixed assets of the business

Long term assets of the business

Question # 11 of 15 ( Start time: 05:38:21 AM ) Total Marks: 1

How can a company improve (lower) its debt-to-total asset ratio?

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Select correct option:

- By borrowing more
- By shifting short-term to long-term debt
- By shifting long-term to short-term debt
- By selling common stock

Question # 12 of 15 ( Start time: 05:38:37 AM ) Total Marks: 1  
For Company A, plow back ratio is 30%. What will be its Pay-out ratio?  
Select correct option:

- 3.33%
- 30%
- 31%
- 70%

Question # 15 of 15 ( Start time: 05:39:44 AM ) Total Marks: 1  
All of the following are the financial statements used for the purpose of reporting and analysis EXCEPT:  
Select correct option:

- Balance Sheet
- Income Statement
- Cash budget
- Statement of Retained Earnings

Question # 2 of 15 ( Start time: 05:48:57 AM ) Total Marks: 1  
Which of the following needs to be excluded while we calculate the incremental cash flows?  
Select correct option:

- Depreciation
- Sunk cost
- Opportunity cost
- Non-cash item

Question # 3 of 15 ( Start time: 05:49:14 AM ) Total Marks: 1  
Under the idealized conditions of MM, which statement is correct when a firm issues new stock in order to pay a cash dividend on existing shares?  
Select correct option:

- The new shares are worth less than the old shares
- The old shares drop in value to equal the new price

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The value of the firm is reduced by the amount of the dividend

The value of the firm is unaffected

Question # 5 of 15 ( Start time: 05:50:40 AM ) Total Marks: 1

Which of the following is the risk of investing funds in another country?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Question # 7 of 15 ( Start time: 05:51:15 AM ) Total Marks: 1

Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows?

Select correct option:

Cash flow diagram

Cash budget

Cash flow statement

None of the given options

Question # 10 of 15 ( Start time: 05:52:11 AM ) Total Marks: 1

The explicit costs associated with corporate default, such as legal expenses, are the \_\_\_\_\_ of the firm.

Select correct option:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs

Question # 11 of 15 ( Start time: 05:52:32 AM ) Total Marks: 1

How economic value is added (EVA) calculated?

Select correct option:

It is the difference between the market value of the firm and the book value of equity

It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge

It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities

None of the given option

Question # 13 of 15 ( Start time: 05:53:18 AM ) Total Marks: 1

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In efficient market the stock price depends upon the required return which depends upon

Select correct option:

Market risk

Total risk

Diversified risk

Non- systematic risk

Question # 2 of 15 ( Start time: 06:02:17 AM ) Total Marks: 1

Which of the following are known as Discretionary Financing?

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities

Question # 3 of 15 ( Start time: 06:03:18 AM ) Total Marks: 1

Which of the following refers to a policy of dividend "smoothing"?

Select correct option:

Maintaining a constant dividend payout ratio

Keeping the regular dividend at the same level indefinitely

Maintaining a steady progression of dividend increases over time

Alternating cash dividends with stock dividends

Question # 5 of 15 ( Start time: 06:05:04 AM ) Total Marks: 1

Which of the following would generally have unlimited liability?

Select correct option:

A limited partner in a partnership

A shareholder in a corporation

The owner of a sole proprietorship

A member in a limited liability company (LLC)

Question # 6 of 15 ( Start time: 06:05:23 AM ) Total Marks: 1

Calculate the break-even point for sales revenues given the following information. The firm has Rs.1, 000,000 in fixed costs. The firm anticipates that variable costs will be Rs.1 for every Rs.5 in sales.

Select correct option:

Rs.1, 250,000

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Rs.1, 000,000

Rs.250, 000

Rs.200, 000

Question # 11 of 15 ( Start time: 06:07:19 AM ) Total Marks: 1

Which of the following is FALSE about Perpetuity?

Select correct option:

It is a series of cash flows

Cash flows occur for a specific time period

Its cash flows are identical

None of the given options

Question # 12 of 15 ( Start time: 06:07:39 AM ) Total Marks: 1

What does the law of conservation of value implies?

Select correct option:

The mix of senior and subordinated debt does not affect the value of the firm

The mix of convertible and non-convertible debt does not affect the value of the firm

The mix of common stock and preferred stock does not affect the value of the firm

All of the given options

Question # 5 of 15 ( Start time: 06:15:27 AM ) Total Marks: 1

Which of the following refers to financial risk?

Select correct option:

Risk of owning equity securities

Risk faced by equity holders when debt is used

General business risk of the firm

Possibility that interest rates will increase

Question # 6 of 15 ( Start time: 06:16:32 AM ) Total Marks: 1

An arbitrage opportunity exists if an investor can construct a \_\_\_\_\_ investment portfolio that will yield a sure profit.

Select correct option:

Positive

Negative

Zero

All of the above

Question # 7 of 15 ( Start time: 06:16:47 AM ) Total Marks: 1

Which of the following risk can be diversified away?

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Select correct option:

- Systematic risk
- Beta
- Firm specific risk
- Market risk

Question # 8 of 15 ( Start time: 06:17:05 AM ) Total Marks: 1  
Which of the followings are the propositions of Modigliani and Miller's?  
Select correct option:

- The market value of a firm's common stock is independent of its capital structure
- The market value of a firm's debt is independent of its capital structure
- The market value of any firm is independent of its capital structure
- None of the given options

Question # 1 of 15 ( Start time: 06:29:41 AM ) Total Marks: 1  
The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows:  $ROE = \text{_____}$ .  
Select correct option:

- Net profit margin  $\times$  Total asset turnover  $\times$  Equity multiplier
- Total asset turnover  $\times$  Gross profit margin  $\times$  Debt ratio
- Total asset turnover  $\times$  Net profit margin
- Total asset turnover  $\times$  Gross profit margin  $\times$  Equity multiplier

Question # 2 of 15 ( Start time: 06:30:01 AM ) Total Marks: 1  
Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?  
Select correct option:

- Operational; financial management
- Financial management; accounting
- Accounting; financial management
- Financial management; operations

Question # 4 of 15 ( Start time: 06:30:29 AM ) Total Marks: 1  
Which of the following could be defined as the capital structure of the Company?  
Select correct option:

- The firm's mix of different securities
- The firm's debt-equity ratio
- The market imperfection that the firm's manager can exploit

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All of the above

Question # 10 of 15 ( Start time: 06:32:44 AM ) Total Marks: 1

Which of the followings expressed the proposition that the value of the firm is independent of its capital structure?

Select correct option:

The Capital Asset Pricing Model

**M&M Proposition I**

M&M Proposition II

The Law of One Price

Question # 12 of 15 ( Start time: 06:34:03 AM ) Total Marks: 1

According to the Capital Asset Pricing Model (CAPM), a well-diversified portfolio's rate of return is a function of which of the following:

Select correct option:

Unique risk

Reinvestment risk

**Market risk**

Unsystematic risk

Question # 3 of 15 ( Start time: 06:42:06 AM ) Total Marks: 1

What is the present value of Rs. 3,500,000 to be paid at the end of 50 years if the correct risk adjusted interest rate is 18%?

Select correct option:

**Rs.105,000**

Rs.1,500,000

Rs.3975,000

Rs. 350,000

$3,500,000 / 1.18^{50}$

Question # 5 of 15 ( Start time: 06:42:20 AM ) Total Marks: 1

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

Rs.52,000

Rs.93,219

**Rs.99,061**

Rs.915,240

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Question # 15 of 15 ( Start time: 06:44:49 AM ) Total Marks: 1

Where the efficient stock combination of risk and return in efficient market should lie?

Select correct option:

On the SML

Below the SML

Above the SML

It may lie anywhere for efficient combination

Question # 2 of 15 ( Start time: 06:56:18 AM ) Total Marks: 1

Which of the following is correct, if a firm has a required rate of return equal to the ROE?

Select correct option:

The firm can increase market price and P/E by retaining more earnings.

The firm can increase market price and P/E by increasing the growth rate.

The amount of earnings retained by the firm does not affect market price or the P/E.

None of the given options

Question # 6 of 15 ( Start time: 06:57:40 AM ) Total Marks: 1

Which of the following refers to a highly competitive market where good business ideas are taken up immediately?

Select correct option:

Capital market

Efficient market

Money market

Real asset market

Question # 11 of 15 ( Start time: 06:59:47 AM ) Total Marks: 1

According to \_\_\_\_\_, the firm's cost of equity increases with greater debt financing, but the WACC remains unchanged.

Select correct option:

M&M Proposition I with taxes

M&M Proposition I without taxes

M&M Proposition II without taxes

M&M Proposition II with taxes

Question # 13 of 15 ( Start time: 07:00:33 AM ) Total Marks: 1

If the probability is written on Y-axis and the rate of return is mentioned on the X-axis, Which kind of relationship it shows when there is higher the standard deviation the higher the risk.

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Select correct option:

- Indirect relationship
- Inverse relationship
- Direct relationship
- No relationship

Question # 15 of 15 ( Start time: 07:00:59 AM ) Total Marks: 1

What would be the result when there is an increase in the number of shares outstanding by reducing the par value of stock?

Select correct option:

- Stock split
- Stock dividend
- Extra dividend
- Regular dividend

Question # 6 of 15 ( Start time: 07:12:33 AM ) Total Marks: 1

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

Select correct option:

- Probability distribution
- Expected return
- Standard deviation
- Coefficient of variation

Question # 14 of 15 ( Start time: 07:23:52 AM ) Total Marks: 1

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Select correct option:

- Rs.154.73
- Rs.147.36
- Rs.109.39
- Rs.104.72

Question # 1 of 15 ( Start time: 07:34:43 AM ) Total Marks: 1

Which of the following is the main objective of 'Economics'?

Select correct option:

- Profit maximization
- Maximization of shareholders wealth

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All of the given options

Question # 2 of 15 ( Start time: 07:34:51 AM ) Total Marks: 1

Market risk is measured in terms of the \_\_\_\_\_ of the market portfolio or index.

Select correct option:

Variance

Covariance

Standard deviation

Correlation coefficient

Question # 3 of 15 ( Start time: 07:35:10 AM ) Total Marks: 1

Why we need Capital rationing? (

Select correct option:

Because, there are not enough positive NPV projects

Because, companies do not always have access to all of the funds they could make use of

Because, managers find it difficult to decide how to fund projects

Because, banks require very high returns on projects

Question # 1 of 10 ( Start time: 10:15:03 AM ) Total Marks: 1

Which of the following is the stability of a firm's operating income?

Select correct option:

Financial leverage

Weighted-average cost of capital

Capital structure

Business risk

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

Operating, investing, and financing

Investing, operating, and financing

Financing, operating and investing

Financing, investing, and operating

Question # 2 of 10

Expected Portfolio Return = \_\_\_\_\_.

Select correct option:

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$$rP^* = xA rA + xB rB$$

$$rP^* = xA rA - xB rB$$

$$rP^* = xA rA / xB rB$$

$$rP^* = xA rA * xB rB$$

Question # 5 of 10

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

Question # 8 of 10

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the present value of this annuity is closest to which of the following equations?

Select correct option:

(Rs.100)(PVIFA at 8% for 4 periods) + Rs.100

(Rs.100)(PVIFA at 8% for 4 periods)(1.08)

(Rs.100)(PVIFA at 8% for 6 periods) - Rs.100

Can not be found from the given information

2. A statistical measure of the degree to which two variables (e.g., securities' returns) move together.

coefficient of variation

variance

covariance

certainty equivalent

3. An "aggressive" common stock would have a "beta"

equal to zero.

greater than one.

equal to one.

less than one.

4. A line that describes the relationship between an individual security's returns and returns on the market portfolio.

characteristic line

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security market line  
capital market line  
beta

5. According to the capital-asset pricing model (CAPM), a security's expected (required) return is equal to the risk-free rate plus a premium

equal to the security's beta.  
based on the unsystematic risk of the security.  
based on the total risk of the security.  
**based on the systematic risk of the security.**

6. The risk-free security has a beta equal to, while the market portfolio's beta is equal to  
one; more than one.  
one; less than one.  
**zero; one.**  
less than zero; more than zero.

7. Carrie has a "certainty equivalent" to a risky gamble's expected value that is less than the gamble's expected value. Carrie shows

**risk aversion.**  
risk preference.  
risk indifference.  
a strange outlook on life.

8. Beta is the slope of

the security market line  
the capital market line.  
**a characteristic line.**  
the CAPM.

9. A measure of "risk per unit of expected return."

standard deviation  
**coefficient of variation**  
correlation coefficient  
beta

10. The greater the beta, the \_\_\_\_\_ of the security involved.

**greater the unavoidable risk**

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greater the avoidable risk  
less the unavoidable risk  
less the avoidable risk

11. Plaid Pants, Inc. common stock has a beta of 0.90, while Acme Dynamite Company common stock has a beta of 1.80. The expected return on the market is 10 percent, and the risk-free rate is 6 percent. According to the capital-asset pricing model (CAPM) and making use of the information above, the required return on Plaid Pants' common stock should be, and the required return on Acme's common stock should be

- 3.6 percent; 7.2 percent
- 9.6 percent; 13.2 percent
- 9.0 percent; 18.0 percent
- 14.0 percent; 23.0 percent

12. Espinosa Coffee & Trading, Inc.'s common stock measured beta is calculated to be 0.75. The market beta is, of course, 1.00 and the beta of the industry of which the company is a part is 1.10. If Merrill Lych were to calculate an "adjusted beta" for Espinosa's common stock, that adjusted beta would most likely be

- less than 0.75
- more than 0.75, but less than 1.10
- equal to 1.10
- equal to 0.95 {i.e.,  $(1/3) \times (0.75 + 1.00 + 1.10)$ }

Question # 3 of 10 ( Start time: 06:53:57 PM ) Total Marks: 1

Which of the following techniques would be used for a project that has non-normal cash flows?

Select correct option:

- Internal rate of return
- Multiple internal rate of return
- Modified internal rate of return
- Net present value

Question # 10 of 10 ( Start time: 07:03:25 PM ) Total Marks: 1

Which of the following portfolio statistics statements is correct?

Select correct option:

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

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The square root of a portfolio's standard deviation of return equals its variance.  
The square root of a portfolio's standard deviation of return equals its coefficient of variation.

Question # 6 of 10 ( Start time: 07:23:14 PM ) Total Marks: 1

Which of the following is a capital budgeting technique that is NOT considered as discounted cash flow method?

Select correct option:

Payback period

Internal rate of return

Net present value

Profitability index

Question # 10 of 10 ( Start time: 07:28:23 PM ) Total Marks: 1

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

Which of the following is NOT the form of cash flow generated by the investments of the shareholders?

Select correct option:

Income

Capital loss

Capital gain

Operating income

What are two major areas of capital budgeting?

Select correct option:

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

Which groups of ratios measures a firm's ability to meet short-term obligations?

Select correct option:

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Liquidity ratios  
Debt ratios  
Coverage ratios  
Profitability ratios

\_\_\_\_\_ is equal to (common shareholders' equity/common shares outstanding).  
Select correct option:

Book value per share  
Liquidation value per share  
Market value per share  
None of the above

**Why companies invest in projects with negative NPV?**

- ▶ Because there is hidden value in each project
- ▶ Because they have chance of rapid growth
- ▶ Because they have invested a lot
- ▶ All of the given options

**Mutually exclusive means that you can invest in \_\_\_\_\_ project(s) and having chosen \_\_\_\_\_ you cannot choose another.**

- ▶ One; one
- ▶ Two; two
- ▶ Two; one
- ▶ Three; one

**A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as \_\_\_\_\_.**

- ▶ Probability distribution
- ▶ The expected return
- ▶ The standard deviation
- ▶ Coefficient of variation

**The present value of growth opportunities (PVGO) is equal to**

I) The difference between a stock's price and its no-growth value per share

II) The stock's price

III) Zero if its return on equity equals the discount rate

IV) The net present value of favorable investment opportunities

- ▶ I and IV
- ▶ II and IV
- ▶ I, III, and IV
- ▶ II, III, and IV

**Present Value of Growth Opportunities (PVGO)** is another alternative method for stock valuation. Present value of growth opportunities is calculated by finding the difference between price of equity with constant growth and price of equity with no

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growth.

$$PVGO = P(\text{Growth}) - P(\text{No growth}) = [D1/(r-g)] - E/r$$

where

D1 = Dividend for next period

r = Cost of Capital or the capitalization rate of the company

E = Earning on equity

g = The growth rate of the company.

Since the Price/Earnings (P/E) Multiple is 'Price per share / Earnings per share' it can be written as

$$P0 / E1 = 1/r [ 1 + (PVGO/(E1/r))].$$

Thus, as PVGO rises, the P/E ratio rises

**Which of the following would tend to reduce a firm's P/E ratio?**

- ▶ The firm significantly decreases financial leverage
- ▶ The firm increases return on equity for the long term
- ▶ **The level of inflation is expected to increase to double-digit levels**
- ▶ The rate of return on Treasury bills decreases

**The market capitalization rate on the stock of Steel Company is 12%. The expected ROE is 13% and the expected EPS are Rs. 3.60. If the firm's plowback ratio is 50%, what will be the P/E ratio?**

- ▶ 7.69
- ▶ 8.33
- ▶ **9.09**
- ▶ 11.11

$$PV = P_0^* = \frac{DIV1}{(rCE - g)} \quad g = P_b \times ROE = .5 \times .13 = .065$$

$$3.6 \times .5 = 1.8$$

$$1.8 / (.12 - .065) = 32.7272 \text{ price of share}$$

$$32.7272 / 3.6 = 9.09$$

EPS = DIV + retained earning

50% retained

50 given in DIV

$$= 1.8 + 1.8$$

plowback is retained

payback is given in div

**Low Tech Company has an expected ROE of 10%. The dividend growth rate will be \_\_\_\_\_ if the firm follows a policy of paying 40% of earnings in the form of dividends.**

- ▶ **6.0%**
- ▶ 4.8%
- ▶ 7.2%
- ▶ 3.0%

**Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?**

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- ▶ Par value
- ▶ Market value
- ▶ Intrinsic value
- ▶ Face value

**How efficient portfolios of "N" risky securities are formed?**

- ▶ These are formed with the securities that have the highest rates of return regardless of their standard deviations
- ▶ They have the highest risk and rates of return and the highest standard deviations
- ▶ They are selected from those securities with the lowest standard deviations regardless of their returns
- ▶ They have the highest rates of return for a given level of risk

**Which of the following is a characteristic of a coupon bond?**

- ▶ Pays interest on a regular basis (typically every six months)
- ▶ Does not pay interest on a regular basis but pays a lump sum at maturity
- ▶ Can always be converted into a specific number of shares of common stock in the issuing company
- ▶ Always sells at par

**A coupon bond pays annual interest, has a par value of Rs.1,000, matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond?**

- ▶ 10.65%
- ▶ 10.45%
- ▶ 10.95%
- ▶ 10.52%
- ▶ 10.52%

$$=100*(1 + 0.12)^{-1}+100*(1 + 0.12)^{-2}+100*(1 + 0.12)^{-3}+1100*(1.12)^{-4} = 939.25$$

Current yield = coupon amount /Price of bond

$$100/939.25 =$$

coupon payment for 4 years @ 10% = 100\*4 = 400

Put the values in Current yield formula = 400/1000 = .1064 = 10.64%

**If a 7% coupon bond is trading for Rs. 975 it has a current yield of \_\_\_\_\_ percent.**

- ▶ 7.00
- ▶ 6.53
- ▶ 8.53
- ▶ 7.18

**Interest rate risk for long term bonds is more than the interest rate risk for short term bonds provided the \_\_\_\_\_ for the bonds is similar.**

- ▶ Interest rate risk
- ▶ Market rate
- ▶ Coupon rate

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- ▶ Inflation rate

**When market is offering lower rate of return than the bond, the bond becomes valuable, with respect to the given scenario which of the following is correct?**

- ▶ Market interest rate  $\leq$  par value
- ▶ Market interest rate  $>$  coupon interest rate, market value of bond is  $>$  par value
- ▶ **Market interest rate  $<$  rate = "coupon"  $>$  par value**

**Which of the following affects the price of the bond?**

- ▶ Market interest rate
- ▶ Required rate of return
- ▶ Interest rate risk
- ▶ All of the given options

**Bond is a type of Direct Claim Security whose value is NOT secured by \_\_\_\_\_.**

- ▶ Tangible assets
- ▶ **Intangible assets**
- ▶ Fixed assets
- ▶ Real assets

**Question No: 24 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt.

- ▶ **A subordinated debenture**
- ▶ A debenture
- ▶ A junk bond
- ▶ An income bond

**A 12% coupon rate, Rs.1,000 par bond currently trades at 90 one year after issuance. Which of the following is the most likely call price?**

- ▶ Rs. 87
- ▶ Rs. 90
- ▶ Rs. 102
- ▶ Rs. 112

Where  $CALL = PAR \text{ Value} + 1 \text{ Year's Worth of Coupon Receipts}$

**Which of the following technique would be used for a project that has non-normal cash flows?**

- ▶ Internal rate of return
- ▶ **Multiple internal rate of return**
- ▶ Modified internal rate of return
- ▶ Net present value

**Why net present value is the most important criteria for selecting the project in capital budgeting?**

- ▶ Because it has a direct link with the shareholders dividends maximization
- ▶ **Because it has direct link with shareholders wealth maximization**
- ▶ Because it helps in quick judgment regarding the investment in real assets
- ▶ Because we have a simple formula to calculate the cash flows

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**From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?**

- ▶ Cash flow from financing activity
- ▶ **Cash flow from operating activity**
- ▶ Cash flow from investing activity
- ▶ All of the given options

**An investment proposal should be judged in whether or not it provides:**

- ▶ A return equal to the return required by the investor
- ▶ A return more than required by investor
- ▶ A return less than required by investor
- ▶ **A return equal to or more than required by investor**

**An 8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?**

- ▶ Rs.109.39
- ▶ Rs.147.36
- ▶ Rs.154.73
- ▶ **Rs.99.74**

**Question No: 34 ( Marks: 1 ) - Please choose one**

**As interest rates go up, the present value of a stream of fixed cash flows \_\_\_\_\_.**

- ▶ **Goes down**
- ▶ Goes up
- ▶ Stays the same
- ▶ Can not be found

**What is the present value of an annuity that pays 100 per year for 10 years if the required rate of return is 7%?**

- ▶ Rs.1000
- ▶ **Rs.702.40**
- ▶ Rs.545.45
- ▶ Rs.13,816

**Which group of ratios relates profits to sales and investment?**

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ Coverage ratios
- ▶ **Profitability ratios**

**Which of the following statements is the least likely to be correct?**

▶ A firm that has a high degree of business risk is less likely to want to incur financial risk

▶ **There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm**

- ▶ Financial ratios are relevant for making internal comparisons
- ▶ It is important to make external comparisons or financial ratios

Which of the following is a major disadvantage of the corporate form of organization?

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Select correct option:

Double taxation of dividends

Inability of the firm to raise large sums of additional capital

Limited liability of shareholders

Limited life of the corporate form

In which of the following approach you need to bring all the projects to the same length in time?

Select correct option:

MIRR approach

Going concern approach

Common life approach

Equivalent annual approach

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

When the bond approaches its maturity, the market value of the bond approaches to which of the following?

Select correct option:

Intrinsic value

Book value

Par value page 68

Historic cost

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the future value of this annuity is closest to which of the following equations?

Select correct option:

(Rs.100)(FVIFA at 8% for 5 periods)

(Rs.100)(FVIFA at 8% for 4 periods)(1.08)

(Rs.100) (FVIFA at 8% for 5 periods)(1.08)

(Rs.100)(FVIFA at 8% for 4 periods) + Rs.100

Which if the following refers to capital budgeting?

Select correct option:

Investment in long-term liabilities

Investment in fixed assets

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Investment in current assets

Investment in short-term liabilities

Which of the following term may be defined as incidental cash flows that arise because of the effect of new project on the running business?

Select correct option:

Sunk cost

Opportunity cost

**Externalities**

Contingencies

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would \_\_\_\_\_.

Select correct option:

Fall

**Rise**

Remain unchanged

Incomplete information

Given no change in required returns, the price of a stock whose dividend is constant will \_\_\_\_\_.

Select correct option:

Decrease over time at a rate of  $r\%$

**Remain unchanged**

Increase over time at a rate of  $r\%$

Decrease over time at a rate equal to the dividend growth rate

A coupon bond that pays interest annually is selling at par value of Rs.1,000, matures in 5 years, and has a coupon rate of 9%. What is the yield to maturity on this bond?

▶ 8.0%

▶ 8.3%

**▶ 9.0%**

▶ 10.0%

What are the earnings per share (EPS) for a company that earned Rs.100,000 last year in after-tax profits, has 200,000 common shares outstanding and Rs.1.2 million in retained earning at the year end?

▶ Rs.1.00

▶ Rs. 6.00

**▶ Rs. 0.50**

Which of the following would be deductible as an expense on the corporation's income statement?

**▶ Interest paid on outstanding bonds**

▶ Cash dividends paid on outstanding common stock

▶ Cash dividends paid on outstanding preferred stock

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**Question No: 8 ( Marks: 1 ) - Please choose one**

Interest paid on the original principal borrowed is often referred to as \_\_\_\_\_.

- ▶ Compound interest
- ▶ Present value
- ▶ **Simple interest**
- ▶ Future value

If the following are the balance sheet changes, which one of them would represent use of funds by a company?

- ▶ Rs. 8,950 decrease in net fixed assets
- ▶ Rs. 5,005 decrease in accounts receivable
- ▶ Rs. 10,001 increase in accounts payable
- ▶ **Rs. 12,012 decrease in notes payable**

In preparing a forecast balance sheet, it is likely that either cash or \_\_\_\_\_ will serve as a "plug figure" or balancing factor to ensure that assets equal liabilities plus shareholders' equity.

- ▶ Retained earnings
- ▶ Accounts receivable
- ▶ Shareholders' equity
- ▶ **Notes payable (short-term borrowings)**

If a project's initial cash outflow of Rs. 100,000 is followed by four annual receipts of 36,000 we can get the nearest discount factor by:

- ▶ Interpolation
- ▶ **Dividing 100,000 by 36,000**
- ▶ Dividing 36,000 by 100,000
- ▶ Insufficient information

**If the cash-flow stream is a uniform series of inflows (an annuity) and the initial outflow occurs at time 0, there is no need for a trial and error approach. We simply divide the initial cash outflow by the periodic receipt and search for the nearest discount factor in a table of present value interest factors of an annuity (PVIFAs).**

What is the advantage of a longer life of the asset?

- ▶ Cash flows from the asset becomes non-predictable
- ▶ **Cash flows from the asset becomes more predictable**
- ▶ Cash inflows from the asset becomes more predictable
- ▶ Cash outflows from the asset becomes more predictable

Which one of the following is **NOT** the disadvantage of the asset with very short life?

- ▶ Money has to be reinvested in some other project with uncertain NPV
- ▶ Money has to be reinvested in some other project with certain NPV
- ▶ Money has to be reinvested in some other project with return so risky
- ▶ **None of the given options**

Which one of the following is the right of the issuer to call back or retire the bond by paying off the bondholders before the maturity date?

- ▶ Call in
- ▶ Call option

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▶ **Call provision**

▶ Put option

The right (or option) of the Issuer to call back (redeem) or retire the bond by paying-off the Bondholders before the Maturity Date. When market interest rates drop, Issuers (or Borrowers) often call back the old bonds and issue new ones at lower interest rates.

An investment opportunity set formed with two securities that are perfectly negatively correlated. What will be standard deviation in the global minimum variance portfolio?

▶ Equal to zero

▶ Greater than zero

A well-diversified portfolio is defined as:

▶ One that is diversified over a large enough number of securities that the nonsystematic variance is essentially zero

▶ One that contains securities from at least three different industry sectors

▶ A portfolio whose factor beta equals 1.0

▶ A portfolio that is equally weighted

Rationale: A well-diversified portfolio is one that contains a large number of securities, each having a small (but not necessarily equal) weight, so that nonsystematic variance is negligible

The ratio of the standard deviation of a distribution to the mean of that distribution is referred to as \_\_\_\_\_.

▶ A probability distribution

▶ The expected return

▶ The standard deviation

▶ Coefficient of variation

All of the following influence capital budgeting cash flows EXCEPT \_\_\_\_\_.

▶ Choice of depreciation method for tax purposes

▶ Economic length of the project

▶ Projected sales (revenues) for the project

▶ Sunk costs of the project

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

▶ Cash budgeting

▶ Capital budgeting

▶ Capital rationing

▶ Capital expenditure

The action that a corporation takes when capital is either difficult or expensive to obtain and many projects must compete for the limited capital available. Companies ration capital when companies increase the minimum return required to fund a new project or investment.

Which of the following statement defines the following events i.e Inflation, recession, and high interest rates? PAGE 91

▶ Systematic risk factors that can be diversified away

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- ▶ Company-specific risk factors that can be diversified away
- ▶ Among the factors that are responsible for market risk
- ▶ Irrelevant except to governmental authorities like the Federal Reserve

You wish to earn a return of 12% on each of two stocks, A and B. Each of the stocks is expected to pay a dividend of Rs. 2 in the upcoming year. The expected growth rate of dividends is 9% for stock A and 10% for stock B. The intrinsic value of stock A:

- ▶ Will be greater than the intrinsic value of stock B
- ▶ Will be the same as the intrinsic value of stock B
- ▶ Will be less than the intrinsic value of stock B
- ▶ None of the given options

If the life of a project is 6 years and the life of other project is 2 years then least common multiple will be:

- ▶ 2 years
- ▶ 6 years
- ▶ 8 years
- ▶ 12 years

\_\_\_\_\_ is the value of bond, which we expect the bond to be.

- ▶ Fair value
- ▶ Book value
- ▶ Market value
- ▶ Maturity value

In conducting an index analysis every balance sheet item is divided by \_\_\_\_\_ and every income statement is divided by \_\_\_\_\_ respectively.

▶ Its corresponding base year balance sheet item; its corresponding base year income statement item

- ▶ Its corresponding base year income statement item; its corresponding base year balance sheet item
- ▶ Net sales or revenues; total assets
- ▶ Total assets; net sales or revenues

In which of the following situations you can expect multiple answers of IRR?

- ▶ More than one sign change taking place in cash flow diagram
- ▶ There are two adjacent arrows one of them is downward pointing & the other one is upward pointing
- ▶ During the life of project if you have any net cash outflow
- ▶ All of the given options

Which of the following formula could be used to calculate expected rate of return  $\langle r \rangle$ ?

- P ▶  $\frac{P_1}{P_0} \times P_0$
- P ▶  $1 + P_1 / P_0$
- ▶  $P_1 - P_0 / P_0$
- P ▶  $P_0 - P_1 / P_0$

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If the cash flow stream for a project is NOT a uniform series of inflows and initial outflow occur at time 0. 15% discount rate produces a resulting present value of Rs. 104,000 that is greater than the initial cash outflow of Rs. 100,000. Now if we want to calculate the best discount rate:

- ▶ We need to try a higher discount rate
- ▶ We need to try a lower discount rate
- ▶ 15% is the best discount rate
- ▶ Interpolation is not required here

Managers prefer IRR over net present value because they evaluate investments:

- ▶ In terms of dollars
- ▶ In terms of Percentages
- ▶ Intuitively
- ▶ Logically

When there is single period capital rationing, what would be the most sensible way of making investment decisions?

- ▶ Choose all projects with a positive NPV
- ▶ Group projects together to allocate the funds available and select the group of projects with the highest NPV
- ▶ Choose the project with the highest NPV
- ▶ Calculate IRR and select the projects with the highest IRRs

Consider a 5-year bond with a 10% coupon that has a present yield to maturity of 8%. If interest rates remain constant, one year from now, what will be the price of this bond?

- ▶ Higher
- ▶ Lower
- ▶ The same
- ▶ Rs. 1,000

A project that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:

Select correct option:

**Payback period**

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Internal rate of return

Net present value

Profitability index

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

Magnitude of expected cash flows

**Timing of expected cash flows**

Both timing and magnitude of cash flows

None of the given options

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Select correct option:

Unlimited liability

Single tax filing

Difficult ownership resale

**Raising capital**

The presence of which of the following costs is not used as a major argument against the M&M arbitrage process?

Select correct option:

Bankruptcy costs

Agency costs

Transactions costs

**Insurance costs**

According to timing difference problem a good project might suffer from \_\_\_ IRR even though its NPV is \_\_\_\_\_.

Select correct option:

Higher; lower

Lower; Lower

**Lower; higher**

Higher; higher

You are considering two investment proposals, project A and project B. B's expected net

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present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

Select correct option:

Project A dominates project B

Project B dominates project A

**Neither project dominates the other in terms of risk and return**

Incomplete information

What should be used to calculate the proportional amount of equity financing employed by a firm?

Select correct option:

The common stock equity account on the firm's balance sheet

The sum of common stock and preferred stock on the balance sheet

The book value of the firm

**The current market price per share of common stock times the number of shares Outstanding**

\_\_\_\_\_ are analysts who use information concerning current and prospective profitability of firms to assess the firm's fair market value.

Select correct option:

Credit analysts

**Fundamental analysts**

Systems analysts

Technical analysts

When a firm needs guaranteed, short-term funds available for a variety purposes, the bank loan will likely be a \_\_\_\_\_.

Select correct option:

Compensating balance arrangement

**Revolving credit agreement**

Transaction loan

Line of credit

Which of the following is not a form of short-term, spontaneous credit?

Select correct option:

Accrued wages

Trade credit

**Commercial paper**

Accrued taxes

Which of the following has the same meaning as the working capital to financial analyst?

Select correct option:

Total assets

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Fixed assets  
Current assets  
**Current assets minus current liabilities**

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

- Financing short-term needs with short-term funds
- Financing permanent inventory buildup with long-term debt
- Financing seasonal needs with short-term funds
- Financing some long-term needs with short-term funds**

Which of the following terms best applies to the short-term interest rate charged by banks to large, creditworthy customers?

Select correct option:

- Discount basis interest rate
- Long-term bond rate
- Prime rate**
- Fed funds rate

In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

- Financing short-term needs with short-term funds
- Financing permanent inventory buildup with long-term debt
- Financing seasonal needs with short-term funds
- Financing some long-term needs with short-term funds**

**Financing some long-term needs with short-term funds**

Which of the following would NOT improve the current ratio?

Select correct option:

- Borrow short term to finance additional fixed assets**
- Issue long-term debt to buy inventory
- Sell common stock to reduce current liabilities
- Sell fixed assets to reduce accounts payable

When bonds are issued, under which of the following category the value of the bond

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appears?

Select correct option:

- Equity
- Fixed assets
- Short term loan
- Long term loan**

Which of the following could be taken same as minimizing the weighted average cost of capital?

Select correct option:

- Maximizing the market value of the firm
- Maximizing the market value of the firm only if MM's Proposition I holds
- Minimizing the market value of the firm only if MM's Proposition I holds**
- Maximizing the profits of the firm**

Which of the following would be consistent with an aggressive approach to financing working capital?

Select correct option:

- Financing short-term needs with short-term funds
- Financing permanent inventory buildup with long-term debt
- Financing seasonal needs with short-term funds
- Financing some long-term needs with short-term funds**

Which of the following is a basic principle of finance as it relates to the management of working capital?

Select correct option:

- Profitability varies inversely with risk
- Liquidity moves together with risk
- Profitability moves together with risk**
- Profitability moves together with liquidity

Which of the following effects price of the bond?

Select correct option:

Market interest rate

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Required rate of return

Interest rate risk

**All of the given options**

Company A has to purchase another company. How do Company A pay for buying the other company?

- ▶ In Cash
- ▶ In Shares
- ▶ Bank Borrowing
- ▶ All of the given options

Assume that the expected returns of the portfolios are the same but their standard deviations are given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

- ▶ 1.5%
- ▶ 2.0%
- ▶ 3.0%
- ▶ 4.0%

What is the present value of Rs.6,500 to be paid at the end of 8 years if the interest rate is 10% compounded annually?

- ▶ Rs.3,032
- ▶ Rs.3,890
- ▶ Rs.3,190
- ▶ Rs.4,301

What is the present value of Rs.717 to be paid at the end of 2 years if the interest rate is 9% compounded annually?

- ▶ Rs.604
- ▶ Rs.417
- ▶ Rs.715
- ▶ Rs.556

The trade terms "1/10, net 45" indicate that \_\_\_\_\_.

- ▶ A 45% discount is permitted if payment is made within 10 days
- ▶ A 1% discount is permitted if payment is made within 10 days
- ▶ A 10% discount is permitted if payment is made within 45 days
- ▶ A 1% discount is permitted if payment is made within 45 days

What is the assumed value of risk free rate of return in Pakistan?

- ▶ 5%
- ▶ 8%

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- ▶ 10%
- ▶ 12%

Company ABC offers its stockholders 10 % stock dividends and Mr. S is one of its stockholders being the owner of 250 stocks. How many shares Mr. S has after availing the stock dividend?

- ▶ 25
- ▶ 50
- ▶ 275
- ▶ 250

If a firm has a DOL of 5 at Q units, what would be the effect on sales and EBIT?  
Select correct option:

- If sales rise by 5%, EBIT will rise by 5%
- If sales rise by 1%, EBIT will rise by 1%
- If sales rise by 5%, EBIT will fall by 25%
- If sales rise by 1%, EBIT will rise by 5%

**Question No: 1 ( Marks: 1 ) - Please choose one**

Which of the following type of lease is a long-term lease that is not cancelable and its life often matches the useful life of the asset?

- ▶ A financial
- ▶ An operating
- ▶ Both financial & operating lease
- ▶ None of the given options

**Question No: 2 ( Marks: 1 ) - Please choose one**

Which of the following would cause the gross profit margin to remain unchanged, but the net profit margin declined over the same period?

- ▶ Cost of goods sold increased relative to sales
- ▶ Sales increased relative to expenses
- ▶ Govt. increased the tax rate
- ▶ Dividends were decreased

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**Question No: 3 ( Marks: 1 ) - Please choose one**

The accounting statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

- ▶ Operating, investing, and financing
- ▶ Investing, operating, and financing
- ▶ Financing, operating and investing
- ▶ Financing, investing, and operating

**Question No: 4 ( Marks: 1 ) - Please choose one**

Managers prefer IRR over net present value because they evaluate investments:

- ▶ In terms of dollars
- ▶ In terms of Percentages
- ▶ Intuitively
- ▶ Logically

**Question No: 5 ( Marks: 1 ) - Please choose one**

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

- ▶ Cash flow from financing activity
- ▶ Cash flow from operating activity
- ▶ Cash flow from investing activity
- ▶ All of the given options

**Question No: 6 ( Marks: 1 ) - Please choose one**

Bond is a type of Direct Claim Security whose value is NOT secured by \_\_\_\_\_.

- ▶ Tangible assets

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- ▶ Intangible assets
- ▶ Fixed assets
- ▶ Real assets

**Question No: 7 ( Marks: 1 ) - Please choose one**

Which one of the following is the right of the issuer to call back or retire the bond by paying off the bondholders before the maturity date?

- ▶ Call in
- ▶ Call option
- ▶ Call provision
- ▶ Put option

**Question No: 8 ( Marks: 1 ) - Please choose one**

Which of the following is designated by the individual investor's optimal portfolio?

- ▶ The point of tangency with the opportunity set and the capital allocation line
- ▶ The point of highest reward to variability ratio in the opportunity set
- ▶ The point of tangency with the indifference curve and the capital allocation line
- ▶ The point of the highest reward to variability ratio in the indifference curve

**Question No: 9 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** the form of cash flow generated by the investments of the shareholders?

- ▶ Income
- ▶ Capital loss
- ▶ Capital gain
- ▶ Operating income

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**Question No: 10 ( Marks: 1 ) - Please choose one**

You wish to earn a return of 13% on each of two stocks, X and Y. Stock X is expected to pay a dividend of Rs. 3 in the upcoming year while Stock Y is expected to pay a dividend of Rs. 4 in the upcoming year. The expected growth rate of dividends for both stocks is 7%. The intrinsic value of stock X:

- ▶ Will be greater than the intrinsic value of stock Y
- ▶ Will be the same as the intrinsic value of stock Y
- ▶ Will be less than the intrinsic value of stock Y
- ▶ Cannot be calculated without knowing the market rate of return

$DIV1 / (r_{CE} - g)$

**Question No: 11 ( Marks: 1 ) - Please choose one**

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

- ▶ The firm can increase market price and P/E by retaining more earnings
- ▶ The firm can increase market price and P/E by increasing the growth rate
- ▶ The amount of earnings retained by the firm does not affect market price or the P/E
- ▶ None of the given options

**Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** a major cause of unsystematic risk.

- ▶ New competitors
- ▶ New product management
- ▶ Worldwide inflation
- ▶ Strikes

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**Question No: 13 ( Marks: 1 ) - Please choose one**

Assume that the expected returns of the portfolios are the same but their standard deviations are given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

- ▶ 1.5%
- ▶ 2.0%
- ▶ 3.0%
- ▶ 4.0%

**Question No: 14 ( Marks: 1 ) - Please choose one**

The logic behind \_\_\_\_\_ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.

- ▶ IRR
- ▶ MIRR
- ▶ PV
- ▶ NPV

**Question No: 15 ( Marks: 1 ) - Please choose one**

In which of the following approach you need to bring all the projects to the same length in time?

- ▶ MIRR approach
- ▶ Going concern approach
- ▶ Common life approach
- ▶ Equivalent annual approach

**Question No: 16 ( Marks: 1 ) - Please choose one**

Which of the following is equal to the market risk, beta, of a security?

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▶ The covariance between the security's return and the market return divided by the variance of the market's returns

▶ The covariance between the security and market returns divided by the standard deviation of the market's returns

▶ The variance of the security's returns divided by the covariance between the security and market returns

▶ The variance of the security's returns divided by the variance of the market's returns

**Question No: 17 (Marks: 1) - Please choose one**

If you become more aggressive with your investments, which one of the following is likely to occur?

- ▶ Your risk will decrease
- ▶ Your risk will increase
- ▶ Your risk will stay the same
- ▶ Your return will be lower

**Question No: 18 (Marks: 1) - Please choose one**

In efficient market the stock price depends upon the required return which depends upon \_\_\_\_\_.

- ▶ Market risk
- ▶ Total risk
- ▶ Diversified risk
- ▶ Non- Systematic risk

**Question No: 19 (Marks: 1) - Please choose one**

How much return would be offered by the stock whose (risk and return) pair lies above the SML?

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- ▶ No return
- ▶ Lower return
- ▶ Average return
- ▶ Excessive return

**Question No: 20 ( Marks: 1 ) - Please choose one**

Find the Expected Return on the Market Portfolio given that the Expected Return on Stock is 17%, the Risk-Free Rate is 1.1%, and the Beta for Stock is 1.5.

- ▶ 11.7%
- ▶ 12.14%
- ▶ 13.23%
- ▶ 13.82%

$$r_A = r_{RF} + (r_M - r_{RF}) \beta_A$$

$$17\% = 1.1\% + (r_M - 1.1\%) * 1.5$$

$$17\% = 1.1\% + r_M * 1.5 - 1.1\% * 1.5$$

$$17\% - 1.1\% + 1.65\% = r_M * 1.5$$

$$17.55\% / 1.5 = r_M$$

$$11.7\% = r_M$$

**Question No: 21 ( Marks: 1 ) - Please choose one**

Which of the following represent all Risk –Return Combinations for the efficient portfolios in the capital market?

- ▶ Parachute graph
- ▶ CML straight line equation
- ▶ Security market line

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- ▶ All of the given options

**Question No: 22 ( Marks: 1 ) - Please choose one**

Assume the nominal interest rates (annual) in the country of Freedonia and the United States are 6% and 12% respectively. What is the implied 90-day forward rate if the current spot rate is 5 Freedonian marks (FM) per U.S. dollar?

- ▶ 4.732
- ▶ 4.927
- ▶ 5.074
- ▶ 5.283

$$Fs/.05=1.06/1.12=4.732$$

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which of the following statements is most correct as it relates to the recording of a capital lease?

- ▶ The capital lease is shown on the lessee's balance sheet as an asset and amortized over the asset's useful life.

- ▶ **The capital lease is listed as an asset on the lessor's balance sheet and amortized over lease term.**

- ▶ A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the lease period.

- ▶ A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the asset's useful life.

**Question No: 24 ( Marks: 1 ) - Please choose one**

The trade terms "1/10, net 45" indicate that \_\_\_\_\_.

- ▶ **A 45% discount is permitted if payment is made within 10 days**
- ▶ A 1% discount is permitted if payment is made within 10 days

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- ▶ A 10% discount is permitted if payment is made within 45 days
- ▶ A 1% discount is permitted if payment is made within 45 days

**Question No: 25 ( Marks: 1 ) - Please choose one**

When the buyer purchases securities through a brokerage house, it is called as:

- ▶ Dutch-auction operation
- ▶ Fixed-price operation
- ▶ Open-market operation
- ▶ Fair-warning operation

**Question No: 26 ( Marks: 1 ) - Please choose one**

The presence of which of the following costs is NOT used as a major argument against the M&M arbitrage process?

- ▶ Transaction costs
- ▶ Insurance costs
- ▶ Bankruptcy costs
- ▶ Agency costs

**Question No: 27 ( Marks: 1 ) - Please choose one**

An implicit cost of adding debt to the capital structure is that it:

- ▶ Adds interest expense to the operating statement
- ▶ Increases the required return on equity
- ▶ Reduces the expected return on assets
- ▶ Decreases the firm's beta

**Question No: 28 ( Marks: 1 ) - Please choose one**

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When financial disaster is looming, why management may borrow to invest in projects having a negative expected NPV?

- ▶ The firm's beta is now negative
- ▶ Taxes are no longer a concern
- ▶ The interest tax shield will cover the loan costs
- ▶ **The lender bears all the risk**

**Question No: 29 ( Marks: 1 ) - Please choose one**

What is difference between shares and bonds?

- ▶ Bonds represent ownership whereas shares do not
- ▶ **Shares represent ownership whereas bonds do not**
- ▶ Shares and bonds both represent equity
- ▶ Bonds represent equity whereas shares do not

**Question No: 30 ( Marks: 1 ) - Please choose one**

What is the present value of Rs.53,000 to be paid at the end of 15 years if the interest rate is 9% compounded annually?

- ▶ Rs.25,300
- ▶ Rs.34,122
- ▶ **Rs.14,549**
- ▶ Rs.11,989

**Question No: 31 ( Marks: 1 ) - Please choose one**

Market portion of risk can be represented through which of the following?

- ▶ **Standard deviation**
- ▶ **Beta coefficient**

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- ▶ Correlation coefficient
- ▶ Variance

Market portion of risk can be represented through the 'Beta' coefficient and it is the corner stone for Capital Asset Pricing Model (CAMP).

**Question No: 32 ( Marks: 1 ) - Please choose one**

The KSE (Karachi Stock Exchange) 100 Index represents what?

- ▶ **The value of Portfolio of Highest volume stocks**
- ▶ The value of Portfolio of all Stocks
- ▶ The value of Portfolio of lowest volume stocks
- ▶ None of the given options

**Question No: 33 ( Marks: 1 ) - Please choose one**

All of the following are used in calculation of required return on a particular stock using SML equation **EXCEPT**:

- ▶ Risk free rate
- ▶ Market risk premium
- ▶ Stock's beta
- ▶ **Stock's price**

**Question No: 34 ( Marks: 1 ) - Please choose one**

What will be the Stock Y's risk premium if the average share of stock Y has a required return of 20% and beta for that stock is 1.0? In addition, treasury bonds yield is 10%?

- ▶ 5%
- ▶ **10%**
- ▶ 20%

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▶ 30%

$$r_A = r_{RF} + (r_M - r_{RF}) \beta_A$$

$$20\% = 10\% + (R_{mp})1$$

$$20\% - 10\% = R_{mp}$$

$$10\% = R_{mp}$$

**Question No: 35 ( Marks: 1 ) - Please choose one**

Which of the following represents the tax shield?

- ▶ **Interest on capital**
- ▶ Dividends to shareholders
- ▶ Retained earnings
- ▶ Establishment expenses

**Question No: 36 ( Marks: 1 ) - Please choose one**

Which of the following theory suggests that shareholder wealth is maximized by a low Dividend Payout?

- ▶ MM Irrelevance Theory
- ▶ Bird in the Hand Theory
- ▶ **Tax Preference Theory**
- ▶ Signaling Theory

**Question No: 37 ( Marks: 1 ) - Please choose one**

In residual dividend model, what does the term 'Conservatism' refer?

- ▶ Overvaluation of free cash flows
- ▶ **Underestimation of free cash flows**

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- ▶ Overestimation of free cash flows
- ▶ None of the given option

**Question No: 38 ( Marks: 1 ) - Please choose one**

Which of the following states that dividends can not exceed retained earnings which are shown in balance sheet?

- ▶ Irrelevance theory
- ▶ **Impairment of Capital Rule**
- ▶ Bird-in-the-hand rule
- ▶ Tax preference theory

**Question No: 39 ( Marks: 1 ) - Please choose one**

Mr. X is going to purchase the stock of ABC Company. Mr. X should purchase the stock on which date so that he can be entitled to receive the dividend, keeping in mind the ex-dividend date is December 7?

- ▶ **December 6**
- ▶ December 7
- ▶ December 8
- ▶ December 9

**Question No: 40 ( Marks: 1 ) - Please choose one**

Which of the following statement shows the total stand alone risk of a firm?

- ▶ Unique risk + Market risk
- ▶ Diversified risk + Financial risk
- ▶ **Business risk + Financial risk**

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- ▶ Business risk + Market risk

**Question No: 41 ( Marks: 1 ) - Please choose one**

Which of the following best matches this statement: “A policy under which relatively large amount of cash, marketable securities, and inventories are carried and under which sales are stimulated by a liberal credit policy, resulting in a high level of receivable”?

- ▶ **Fat cat working capital policy**
- ▶ Lean & Mean working capital policy
- ▶ Moderate working capital policy
- ▶ None of the given options

**Question No: 42 ( Marks: 1 ) - Please choose one**

Calculate the return on equity (ROE) of ABC Company using Du Pont equation and the data given below:

Profit Margin= 30%

Asset Turnover= 50%

Leverage Factor = 60%

- ▶ 3.6%
- ▶ **9%**
- ▶ 14%
- ▶ 33%

ROE= Profit Margin x Asset Turnover x Leverage Factor (or Equity Multiplier)  
= (Net Income/Sales) x (Sales/Assets) x (Total Assets/Equity)

= Net Income / Equity

**Question No: 43 ( Marks: 1 ) - Please choose one**

Which of the following is the total cost formula?

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- ▶ Fixed cost \* Quantity + Variable cost
- ▶ Variable cost \* Quantity - Fixed cost
- ▶ **Variable cost \* Quantity + Fixed cost**
- ▶ Fixed cost \* Quantity - Variable cost

**Question No: 44 ( Marks: 1 ) - Please choose one**

Capital structure theory is presented by which of the following?

- ▶ Robert Alan Hill
- ▶ **Modigliani & Miller**
- ▶ Brigham & Houston
- ▶ Van Horne & Gittman

**Question No: 45 ( Marks: 1 ) - Please choose one**

Which of the following statements is correct regarding an aggressive financing policy for a firm relative to a previous conservative policy?

- ▶ **The firm will use long-term financing to finance all fixed and current assets**
- ▶ **The firm will see an increase in its expected profits than before**
- ▶ The firm will see a decline in its overall risk profile
- ▶ The firm will need to issue additional common stock this period to finance the assets

**The firm will see a lower profit level than with an aggressive policy because of higher interest costs**

**Question No: 46 ( Marks: 1 ) - Please choose one**

Under which of the following conditions, suppliers may refuse to supply the raw material?

- ▶ **When there is rumor of bankruptcy of the firm**

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- ▶ When firms are financed through debt
- ▶ When firms are financed through equity
- ▶ Under uncertain market conditions

**Question No: 47 ( Marks: 1 ) - Please choose one**

Which of the following is also known as service lease?

- ▶ Capital Lease
- ▶ Financial Lease
- ▶ **Operating Lease**
- ▶ Sale & Lease-Back

**Question No: 48 ( Marks: 1 ) - Please choose one**

Company A has to purchase another company. How do Company A pay for buying the other company?

- ▶ In Cash
- ▶ In Shares
- ▶ Bank Borrowing
- ▶ **All of the given options**

**Question No: 49 ( Marks: 1 ) - Please choose one**

Two businesses at the same level of production are merging together. It is referred as:

- ▶ **Horizontal Merger**
- ▶ Vertical Merger
- ▶ Congeneric Merger
- ▶ Conglomerate Merger

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**Question No: 50 (Marks: 1) - Please choose one**

Under pure M&M theory, WACC does not change with \_\_\_\_\_.

- ▶ **Change of debt in capital structure**
- ▶ Change in EPS
- ▶ Change financial expenses
- ▶ Change in business risk

**Question No: 51 (Marks: 1) - Please choose one**

According to the trade off theory, value of the firm rises as a result of \_\_\_\_\_.

- ▶ **Tax saving**
- ▶ Increase in EPS
- ▶ Increase in EBIT
- ▶ Saving in cost of debt

in trade off theory in reality initially value of the firm rises as there is interest tax saving but with excessive leverage, value of the firm starts declining as interest cost goes very high due to bankruptcy risk

**Question No: 52 (Marks: 1) - Please choose one**

From which of the following equations, net income can be calculated?

- ▶  $NI = (EBIT - x_D r_D) (1 - T_c)$
- ▶  $NI = (EAT - x_D r_D) (1 - T_c)$
- ▶  $NI = (EBIT + x_D r_D) (1 - T_c)$
- ▶  $NI = (EBIT - x_D r_D) / (1 - T_c)$

**Question No: 53 (Marks: 1) - Please choose one**

Calculate the Forward Rate for Rupee using Interest Rate Parity if the interest on 1 Year

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Maturity in Pakistan is 10% and on Euro is 6% and the forward rate is Rs.124/ EUR.

- ▶ Rs. 6 per EUR
- ▶ Rs. 120 per EUR
- ▶ **Rs. 124 per EUR**
- ▶ Rs. 1240 per EUR

**Question No: 54 ( Marks: 1 ) - Please choose one**

Which of the following is known as selling price for currency?

- ▶ **Bid rate**
- ▶ Ask rate
- ▶ Forward rate
- ▶ Spot rate

**Question No: 1 ( Marks: 1 ) - Please choose one**

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

- ▶ **Shareholder; manager**
- ▶ Manager; owner
- ▶ Accountant; bondholder
- ▶ Shareholder; bondholder

**Question No: 2 ( Marks: 1 ) - Please choose one**

Who determines the market price of a share of common stock?

- ▶ **Individuals buying and selling the stock**
- ▶ The board of directors of the firm
- ▶ The stock exchange on which the stock is listed
- ▶ The president of the company

**Question No: 3 ( Marks: 1 ) - Please choose one**

Which of the following would be deductible as an expense on the corporation's income statement?

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▶ **Interest paid on outstanding bonds**

- ▶ Cash dividends paid on outstanding common stock
- ▶ Cash dividends paid on outstanding preferred stock
- ▶ All of the given options

**Question No: 4 ( Marks: 1 ) - Please choose one**

How a company can improve (lower) its debt-to-total asset ratio?

- ▶ By borrowing more
- ▶ By shifting short-term to long-term debt
- ▶ By shifting long-term to short-term debt

▶ **By selling common stock**

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following statement is most accurate?

- ▶ Coverage ratios also shed light on the "liquidity" of current ratios

▶ **Receivable- and inventory-based activity ratios also shed light on the "liquidity" of current assets**

▶ Receivable- and inventory-based activity ratios also shed light on the firm's use of financial leverage

- ▶ Liquidity ratios also shed light on the firm's use of financial leverage

**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following statements is most correct?

▶ **The future value of an annuity due is greater than an otherwise identical ordinary annuity**

▶ A reduction in the discount rate will increase the future value of an otherwise identical cash flow stream

▶ Continuous compounding will result in a higher present value relative to an otherwise identical investment that is compounded monthly at the same nominal rate

▶ The FVIFA ( $i\%$ ,  $N$  periods) equals the sum of the PVIF( $i\%$ ,  $n$ ) for  $n=1$  to  $N$  periods

This will actually decrease the present value because the EAR is higher for continuous compounding (although it would increase the present value).

**Question No: 7 ( Marks: 1 ) - Please choose one**

The estimated benefits from a capital budgeting project are expected as cash flows rather than income flows because \_\_\_\_\_.

- ▶ It is more difficult to calculate income flows than cash flows

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▶ It is cash, not accounting income that is central to the firm's capital budgeting decision

▶ This is required by the accounting profession

▶ This is required by the Internal Revenue Service (IRS) and enforced through filings with the Securities and Exchange Commission (SEC)

**Question No: 8 (Marks: 1) - Please choose one**

Which of the following technique would be used for a project that has non-normal cash flows?

▶ Internal rate of return

▶ Multiple internal rate of return

▶ Modified internal rate of return

▶ Net present value

**Question No: 9 (Marks: 1) - Please choose one**

Which one of the following is **NOT** the disadvantage of the asset with very short life?

▶ Money has to be reinvested in some other project with uncertain NPV

▶ Money has to be reinvested in some other project with certain NPV

▶ Money has to be reinvested in some other project with return so risky

▶ None of the given options

**Question No: 10 (Marks: 1) - Please choose one**

When a bond will sell at a discount?

▶ The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

▶ The coupon rate is greater than yield to maturity

▶ The coupon rate is less than the current yield and the current yield is greater than the yield to maturity

▶ The coupon rate is less than the current yield and the current yield is less than yield to maturity

In order for the investor to earn more than the current yield the bond must be selling for a discount. Yield to maturity will be greater than current yield as investor will have purchased the bond at discount and will be receiving the coupon payments over the life of the bond

**Question No: 12 (Marks: 1) - Please choose one**

Which of the following statement about portfolio statistics is **CORRECT**?

▶ A portfolio's expected return is a simple weighted average of expected returns of

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the individual securities comprising the portfolio.

- ▶ A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.
- ▶ The square root of a portfolio's standard deviation of return equals its variance.
- ▶ The square root of a portfolio's standard deviation of return equals its coefficient of variation.

**Question No: 13 ( Marks: 1 ) - Please choose one**

Which of the following is simply the weighted average of the possible returns, with the weights being the probabilities of occurrence?

- ▶ A probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

**Question No: 14 ( Marks: 1 ) - Please choose one**

The objective of financial management is to maximize \_\_\_\_\_ wealth.

- ▶ Stakeholders
- ▶ **Shareholders**
- ▶ Bondholders
- ▶ Directors

**Question No: 15 ( Marks: 1 ) - Please choose one**

How can you limit company-specific risks?

- ▶ Invest in that company's bonds
- ▶ **Invest in a variety of stocks**
- ▶ Invest in securities that do well in a recession
- ▶ Invest in securities that do well in a boom

**Question No: 16 ( Marks: 1 ) - Please choose one**

To limit volatility what should be the appropriate action?

- ▶ **To diversify**
- ▶ To check the stocks prices daily
- ▶ To own just a few securities
- ▶ Not to invest in risky securities

What is the meaning of the term "arbitrage"?

- ▶ Buying low and selling high
- ▶ **Earning risk-free economic profits**
- ▶ Negotiating for favorable brokerage fees
- ▶ Hedging your portfolio through the use of options

Arbitrage is exploiting security mispricings by the simultaneous purchase and sale to gain economic profits without taking any risk. A capital market in equilibrium rules out arbitrage opportunities

**Question No: 19 ( Marks: 1 ) - Please choose one**

The ABC Company relies on preferred stock, bonds, and common stock for its long-term financing. Rank in ascending order (i.e., 1 = lowest, while 3 = highest) the likely after-tax

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component costs of the ABC's long-term financing.

- ▶ 1 = bonds; 2 = common stock; 3 = preferred stock
- ▶ 1 = bonds; 2 = preferred stock; 3 = common stock
- ▶ 1 = common stock; 2 = preferred stock; 3 = bonds
- ▶ 1 = preferred stock; 2 = common stock; 3 = bonds

**Question No: 20 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** a recognized approach for determining the cost of equity?

- ▶ Dividend discount model approach
- ▶ Before-tax cost of preferred stock plus risk premium approach
- ▶ Capital-asset pricing model approach
- ▶ Before-tax cost of debt plus risk premium approach

**Question No: 24 ( Marks: 1 ) - Please choose one**

Suppose that the Euro is selling at a forward discount in the forward-exchange market. This implies that most likely \_\_\_\_\_.

- ▶ The Euro has low exchange-rate risk
- ▶ The Euro is gaining strength in relation to the dollar
- ▶ Interest rates are higher in Euroland than in the United States
- ▶ Interest rates are declining in Europe

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following is a reason suggested by the authors for a divestiture, such as a sell-off or spin-off?

- ▶ Synergy
- ▶ Reverse synergy
- ▶ Hubris

**Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following refers to a policy of dividend "smoothing"?

- ▶ Maintaining a constant dividend payout ratio
- ▶ Keeping the regular dividend at the same level indefinitely
- ▶ Maintaining a steady progression of dividend increase over time
- ▶ Alternating cash dividends with stock dividends

**Question No: 28 ( Marks: 1 ) - Please choose one**

Why Investors may prefer lower dividends to higher dividends?

- ▶ The low dividends are more predictable
- ▶ Capital gains may be taxed less heavily than dividends
- ▶ Of the "bird in the hand" logic
- ▶ Low dividends indicate heavy investment for the future

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** correct regarding issuing company's repurchase of their shares?

- ▶ Companies pay out money to shareholders by repurchasing their shares
- ▶ Stock repurchases have grown slowly but gradually in recent years; however they do not substitute for dividends

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▶ Instead, repurchases are generally used to make major one-off changes to the firm's capital structure, particularly when cash resources have outrun good investment opportunities

▶ Repurchases can be like bumper dividends; they cause large amounts of cash to be paid to investors when the firm buys back their shares

**Question No: 30 ( Marks: 1 ) - Please choose one**

According to MM II, what happens when a firm's debt-to-equity ratio increases?

- ▶ Its financial risk increases
- ▶ Its operating risk increases
- ▶ **The expected return on equity increases**
- ▶ The expected return on equity decreases

**Question No: 31 ( Marks: 1 ) - Please choose one**

If the following are the balance sheet changes, which one of them would NOT represent use of funds by a company?

- ▶ **Rs. 8,950 decrease in net fixed assets**
- ▶ Rs. 5,005 decrease in accounts receivable
- ▶ Rs. 10,001 increase in accounts payable
- ▶ Rs. 12,012 decrease in notes payable

**Question No: 32 ( Marks: 1 ) - Please choose one**

Assume a company had Rs.1 billion in free cash flow last year, and it is expected to grow that cash flow at 3% into perpetuity. Assuming a 9% cost of equity, what is the present value of the company?

- ▶ Rs.12.08 billion
- ▶ Rs.18.15 billion
- ▶ Rs.14.16 billion
- ▶ Rs.16.67 billion

**Instructor's Reply:**

Formula to be used in this question is

$$PV = \frac{CCF}{(r_{CE} - g)}$$

Now solve it yourself.

**Question No: 33 ( Marks: 1 ) - Please choose one**

While calculating the stock Beta graphically, y-intercept is known as:

- ▶ **Alpha**
- ▶ Beta
- ▶ Gamma
- ▶ None of the given options

**Question No: 34 ( Marks: 1 ) - Please choose one**

In a market where the SML (Security Market Line) has low slope, most of the investors are:

- ▶ Risk lover
- ▶ Risk averse
- ▶ Professional investors

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- ▶ None of the given options

**Question No: 35 (Marks: 1) - Please choose one**

What is the assumed value of risk free rate of return in Pakistan?

- ▶ 5%
- ▶ 8%
- ▶ 10%
- ▶ 12%

**Question No: 36 (Marks: 1) - Please choose one**

In term of diversification, the efficient portfolios must lie on which of the following?

- ▶ Capital market line
- ▶ Money market line
- ▶ Security market line
- ▶ None of the given options

**Question No: 37 (Marks: 1) - Please choose one**

Which of the following is/are ideal source(s) of capital for profitable firms because of no transaction costs?

- ▶ Sizeable Cash
- ▶ Retained Earnings
- ▶ Both Sizeable Cash and Retained Earnings
- ▶ None of the given options

**Question No: 38 (Marks: 1) - Please choose one**

Which of the following is/are the assumption(s) of MM's (Miller Modigliani) Theory?

- ▶ There are no brokerage costs
- ▶ There are no taxes
- ▶ There are no bankruptcy costs
- ▶ All of the given options

**Question No: 39 (Marks: 1) - Please choose one**

How many approaches are used to calculate the required rate of return for common equity?

- ▶ 1
- ▶ 2
- ▶ 3
- ▶ 5

**Question No: 40 (Marks: 1) - Please choose one**

Which of the following allows to by-pass the errors of forecasting?

- ▶ Capital asset pricing model
- ▶ Gordon's formula
- ▶ Share valuation formula
- ▶ Standard deviation

**Question No: 41 (Marks: 1) - Please choose one**

The Impairment of Capital Rule refers to what?

- ▶ Cash Dividends can only be paid from cash

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- ▶ Dividends can not exceed Retained Earnings
- ▶ Restricting the dividend payout if earnings are too low to pay interest
- ▶ Investors buy stocks whose dividend policy they like

**Question No: 42 ( Marks: 1 ) - Please choose one**

Tax Preference Theory suggests that shareholder wealth is maximized by low dividend payout because of which of the following reasons?

- ▶ Marginal tax rate on dividends is lower than on capital gains
- ▶ Marginal tax rate on dividends is higher than on capital gains
- ▶ Marginal tax rate on dividends is equal to capital gains
- ▶ None of the given options

**Question No: 43 ( Marks: 1 ) - Please choose one**

Company ABC offers its stockholders 10 % stock dividends and Mr. S is one of its stockholders being the owner of 250 stocks. How many shares Mr. S has after availing the stock dividend?

- ▶ 25
- ▶ 50
- ▶ 275
- ▶ 250

if you own 100 shares than company will give you 10 more shares free of cost. Number of shares increases but Total Value of Firm is unchanged.

**Question No: 44 ( Marks: 1 ) - Please choose one**

All of the following are considered while computing the working capital of a firm

**EXCEPT:**

- ▶ Inventory
- ▶ Accounts Receivables
- ▶ Accrued expenses
- ▶ Marketable Securities

**Question No: 45 ( Marks: 1 ) - Please choose one**

Firms increase financial leverage because of the increase in which of the following?

- ▶ Assets
- ▶ Debt
- ▶ Equity
- ▶ Expenses

**Question No: 46 ( Marks: 1 ) - Please choose one**

Which of the following is called the father of corporate finance?

- ▶ Prasanna Chandra
- ▶ Modigliani & Miller
- ▶ Van Horne & Gittman
- ▶ Robert Alan Hill

**Question No: 48 ( Marks: 1 ) - Please choose one**

If selling price per unit falls and all other factors remain constant, the operating break-even points (units) will \_\_\_\_\_.

- ▶ Fall

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- ▶ Rise
- ▶ Remain the same
- ▶ None of the given options

**Question No: 49 (Marks: 1) - Please choose one**

A car manufacturing company purchases radiators, axles and other parts to be used in manufacturing the car from suppliers rather than making them itself. This refers to which of the following?

- ▶ Outsourcing
- ▶ Just in time
- ▶ Aggressive approach
- ▶ Conservative approach

**Question No: 50 (Marks: 1) - Please choose one**

From which of the following, negative net worth of the company is expressed?

- ▶ Experiencing a project failure
- ▶ Competitor's insolvency
- ▶ Experiencing technical insolvency
- ▶ Experiencing accounting insolvency

**Question No: 51 (Marks: 1) - Please choose one**

Under which of the following conditions, suppliers may refuse to supply the raw material?

- ▶ When there is rumor of bankruptcy of the firm
- ▶ When firms are financed through debt
- ▶ When firms are financed through equity
- ▶ Under uncertain market conditions

**Question No: 52 (Marks: 1) - Please choose one**

Which of the following is not one of the types of merger?

- ▶ Horizontal Merger
- ▶ Vertical Merger
- ▶ Diagonal Merger
- ▶ Conglomerate Merger

**Question No: 53 (Marks: 1) - Please choose one**

In which of the following theory the value of the firm increases gradually because of tax savings but with excessive leverage the value starts declining?

- ▶ M&M theory
- ▶ Trade off theory
- ▶ Law of diminishing returns
- ▶ Signaling theory

**Question No: 54 (Marks: 1) - Please choose one**

Which of the following statements is true about business risk?

- ▶ The financial risk of a firm decreases when it takes on a risky project
- ▶ The financial risk of a firm increases when it takes on more equity
- ▶ The business risk of a firm increases when it takes on a risky project
- ▶ The business risk of a firm increases when it takes on more debt

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What is the expected return of a zero-beta security?

Select correct option:

- The risk-free rate
- Zero rate of return
- A negative rate of return
- The market rate of return

Question # 7 of 15 ( Start time: 04:17:42 AM ) Total Marks: 1

Which statement is NOT true regarding the market portfolio?

Select correct option:

- It includes all publicly traded financial assets
- It is the tangency point between the capital market line and the indifference curve
- All securities in the market portfolio are held in proportion to their market values
- It lies on the efficient frontier

What does the law of conservation of value implies?

Select correct option:

- The mix of senior and subordinated debt does not affect the value of the firm
- The mix of convertible and non-convertible debt does not affect the value of the firm
- The mix of common stock and preferred stock does not affect the value of the firm
- All of the given options

Question # 14 of 15 ( Start time: 04:26:23 AM ) Total Marks: 1

Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?

Select correct option:

- Debt capacity
- Debt-service burden
- Adequacy capacity
- Fixed-charge burden

Total portfolio risk is a combination of:

Select correct option:

- Systematic risk plus non-diversifiable risk
- Avoidable risk plus diversifiable risk

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Systematic risk plus unavoidable risk

Systematic risk plus diversifiable risk

Which of the following could NOT be defined as the capital structure of the Company?

Select correct option:

The firm's mix of Assets and liabilities

The firm's common stocks only

The firm's debt-equity ratio

All of the given options

Which of the following could be taken same as minimizing the weighted average cost of capital?

Maximizing the market value of the firm

Maximizing the market value of the firm only if MM's Proposition I

Minimizing the market value of the firm only if MM's Proposition I holds

Maximizing the profits of the firm

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index most likely has

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclicality of earnings growth than that of the average firm

What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

The default premium is paid by companies with lower grade bonds or by individuals with poor credit. As an illustration, companies with poor financials will tend to compensate investors for the additional risk by issuing bonds with high yields. Individuals with poor credit must pay higher interest rates in order to borrow money from the bank

Upon which of the following a firm's degree of operating leverage (DOL) depends primarily

Select correct option:

Sales variability

Level of fixed operating costs

Closeness to its operating break-even point

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

Select correct option:

Project A dominates project B

Project B dominates project A

Neither project dominates the other in terms of risk and return

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Incomplete information

If all things equal, when diversification is most effective?

Select correct option:

Securities' returns are positively correlated

Securities' returns are uncorrelated

Securities' returns are high

**Securities' returns are negatively correlated**

What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?

Select correct option:

Default risk premium

Sovereign Risk Premium

Market risk premium

Maturity risk premium

Total portfolio risk is \_\_\_\_\_.

Select correct option:

Equal to systematic risk plus non-diversifiable risk

Equal to avoidable risk plus diversifiable risk

Equal to systematic risk plus unavoidable risk

Equal to systematic risk plus diversifiable risk

What should be the focal point of financial management in a firm?

Select correct option:

The number and types of products or services provided by the firm

The minimization of the amount of taxes paid by the firm

**The creation of value for shareholders**

The dollars profits earned by the firm

Increase a given future value, the discount rate should be adjusted \_\_\_\_\_.

▶ **Upward**

▶ Downward

▶ First upward and then downward

▶ None of the given options

An annuity due is always worth \_\_\_\_\_ a comparable annuity.

▶ Less than

▶ **More than**

▶ Equal to

▶ Can not be found

What is the easiest method to diversify away firm-specific risks?

Select correct option:

To buy stocks with a beta of 1.0

To build a portfolio with 5-10 individual stocks

**To purchase the shares of a mutual fund**

To purchase stocks that plot above the security market line

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**Which of the following is CORRECT, if a firm has a required rate of return equal to the ROE?**

- ▶ The firm can increase market price and P/E by retaining more earnings
- ▶ The firm can increase market price and P/E by increasing the growth rate
- ▶ **The amount of earnings retained by the firm does not affect market price or the P/E**
- ▶ None of the given options

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

- ▶ Payback period
- ▶ **Internal rate of return**
- ▶ Net present value
- ▶ Profitability index

**Why a single, overall cost of capital is often used to evaluate projects?**

Select correct option:

**It avoids the problem of computing the required rate of return for each investment Proposal**

It is the only way to measure a firm's required return

It acknowledges that most new investment projects have about the same degree of risk

It acknowledges that most new investment projects offer about the same expected return

1. Firm ABC has Rs.5 million in outstanding debt, currently has 200,000 shares outstanding priced at Rs.60 a share, and has a borrowing rate of 10%. If the firm's return on equity is 15%, what is the firm's WACC?

- ▶ 5.00%
- ▶ 3.23%
- ▶ 4.25%
- ▶ **2.16%**

$$\text{WACC} = (E / V) * r_d + (D / V) * r_{or}$$
$$5/17 * .10 + 12/17 * .15 = 13.50\%$$

2. What is the economic order quantity for an automobile dealer selling 2,000 cars per year, at a cost of Rs.750 per order, and a carrying cost of Rs.300 per automobile?

- ▶ 40 cars
- ▶ 71 cars
- ▶ **100 cars**
- ▶ 126 cars

$$\text{SQR } 2 \times ru \times oc / uc \times cc\%$$

$$\text{SQR } 2 \times 2000 \times 750 / uc \times 300$$

$$\text{EOQ} = 100$$

3. Find the Risk-Free Rate given that the Expected Return on Stock is 12.44%, the

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Expected Return on the Market Portfolio is 13.4%, and the Beta for Stock is 0.9.

- ▶ 3.8%
- ▶ 4.9%
- ▶ 5.34%
- ▶ 6.38%

$$r_A = r_{RF} + (r_M - r_{RF}) \beta_A$$

$$12.44 = r_f + (13.4 - r_f) .9$$

$$12.44 = r_f + 12.06 - .9r_f$$

$$12.44 = .1r_f + 12.06$$

$$.1r_f = 12.44 - 12.06$$

$$r_f = .38 / .1 = 3.8\%$$

4. The beta of an all-equity firm is 1.2. If the firm changes its capital structure to 50% debt and 50% equity using 8% debt financing, what will be the beta of the levered firm? The beta of debt is 0.2. (Assume no taxes.)

- ▶ 1.2
- ▶ 2.4
- ▶ 2.2
- ▶ 1.8

5. The Serfraz Company is financed by Rs. 2 million (market value) in debt and Rs. 3 million (market value) in equity. The cost of debt is 10% and the cost of equity is 15%. Calculate the weighted average cost of capital. (Assume no taxes.)

- ▶ 10%
- ▶ 15%
- ▶ 13%

$$WACC = (E / V) * r_d + (D / V) * r_{or}$$

$$2/5 * .10 + 3/5 * .15 = 13\%$$

6. What is the proportion of assets in debt financing for a firm that expects a 24% return on equity, a 16% return on assets, and a 12% return on debt? Ignore taxes.

- ▶ 54.0%
- ▶ 60.0%
- ▶ 61.7%
- ▶ 75.0%

What is the long-run objective of financial management?

- ▶ **Maximize earnings per share**
- ▶ Maximize the value of the firm's common stock
- ▶ Maximize return on investment

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- ▶ Maximize market share

---

What is the present value of a Rs.1,000 ordinary annuity that earns 8% annually for an infinite number of periods?

- ▶ Rs.80
- ▶ Rs.800
- ▶ Rs.1,000
- ▶ **Rs.12,500**

---

The square of the standard deviation is known as the \_\_\_\_\_.

- ▶ Beta
- ▶ Expected return
- ▶ Coefficient of variation
- ▶ **Variance**

---

An investor was expecting a 18% return on his portfolio with beta of 1.25 before the market risk premium increased from 8% to 10%. Based on this change, what return will now be expected on the portfolio?

- ▶ 22.5%
- ▶ 20.0%
- ▶ **20.5%**
- ▶ 26.0%

$$r_A = r_{RF} + (r_M - r_{RF}) \beta_A$$

$$.18 = r_f + .08 * 1.25$$

$$.18 = r_f + .10$$

$$r_f = .18 - .10 = .08$$

$$r_A = .08 + .10 * 1.25$$

$$r_A = 20.5\%$$

---

Which of the following formula relates beta of the stock to the standard deviation?

- ▶ Covariance of stock with market \* variance of the market
- ▶ **Covariance of stock with market / variance of the market**
- ▶ Variance of the market / Covariance of stock with market
- ▶ Slope of the regression line

---

A beta greater than 1 for a stock shows:

- ▶ Stock is relatively more risky than the market
- ▶ If the market moves up by 10% the stock will move up by 12%
- ▶ As the market moves the stock will move in the same direction
- ▶ **All of the given options**

---

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Which of the following is the market for short term debt?

- ▶ **Money market**
- ▶ Capital market
- ▶ Real asset market
- ▶ Equity market

---

Why debt is a less costly source of fund?

- ▶ **Because additional interest creates a new form of tax shield**
- ▶ Because additional money creates a new form of tax shield
- ▶ Because banks extend loan at lower interest rates
- ▶ None of the given options

---

Calculate the degree of operating leverage (DOL) at 400,000 units of quantity sold. The firm has Rs.1, 000,000 in fixed costs. The firm anticipates selling each unit for Rs.25 with variable costs of Rs.5 per unit.

- ▶ **3.33**
- ▶ 1.25
- ▶ **1.14**
- ▶ There is not sufficient information provided to calculate the degree of operating leverage (DOL).

$DOL = (\text{Sales} - \text{Variable Costs}) / (\text{Sales} - \text{Variable Costs} - \text{Fixed Costs})$

$DOL = (10,000,000 - 2,000,000) / (10,000,000 - 2,000,000 - 1,000,000)$

$DOL = 8,000,000 / 7,000,000$

A firm has a DOL of 3.5 at Q units. What does this tell us about the firm?

- ▶ If sales rise by 3.5% at the firm, then EBIT will rise by 1%
- ▶ If EBIT rises by 3.5% at the firm, then EPS will rise by 1%
- ▶ **If EBIT rises by 1% at the firm, then EPS will rise by 3.5%**
- ▶ If sales rise by 1% at the firm, then EBIT will rise by 3.5%

Which of the following represents financial leverage?

- ▶ **Use of more debt capital to increase profit**
- ▶ Debt is not used in capital to increase profit
- ▶ High degree of solvency
- ▶ Low degree of solvency

---

Which of the following best describes the statement; “The value of an asset is preserved regardless of the nature of the claims against it”?

- ▶ Law of diminishing marginal returns
- ▶ **Law of conservation of value**
- ▶ Law of return on equity
- ▶ **Law of return on assets**

---

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Which of the following statements regarding the M&M Propositions without taxes is true?

- ▶ The total value of the firm depends on how cash flows are divided up between stockholders and bondholders, under M&M Proposition I.
- ▶ The firm's capital structure is relevant under M&M Proposition I.
- ▶ The cost of equity depends on the firm's business risk but not its financial risk, under M&M Proposition II.
- ▶ **The cost of equity rises as the firm increases its use of debt financing under M&M Proposition II.**

---

Which one of the following is correct for the spot exchange rate?

- ▶ **This is the rate today for exchanging one currency for another for immediate delivery**
- ▶ **This is the rate today for exchanging one currency for another at a specific future date**
- ▶ This is the rate today for exchanging one currency for another at a specific location on a specific future date
- ▶ This is the rate today for exchanging one currency for another at a specific location for immediate delivery

---

The restructuring of a firm should be undertaken, when:

- ▶ **The restructuring is expected to create value for shareholders**
- ▶ The restructuring is expected to increase earnings per share next year
- ▶ The restructuring is expected to increase the firm's market share power in industry
- ▶ The current employees will receive additional stock options to align employee interest

---

Which of the following term is used when the firm can independently control considerable assets with a very limited amount of equity?

- ▶ Joint venture
- ▶ **Leveraged buyout (LBO)**
- ▶ Spin-off
- ▶ Consolidation

---

As the amount of \_\_\_\_\_ increases the present value of net tax-shield benefits of debt increases.

- ▶ **Debt**
- ▶ Common equity
- ▶ Preferred equity
- ▶ Assets

Why the present value of the costs of financial distress increases with increases in the

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debt ratio?

- ▶ Expected return on assets increases
- ▶ Present value of the interest tax shield is greater
- ▶ Equity tax shield is depleted
- ▶ **Probability of default and/or bankruptcy is greater**

---

**What are the real markets effects of leverage on WACC?** Answer: **Real Markets Effects of leverage on WACC:**

- Increase in leverage causes a large increase in cost of equity
- Increase in leverage causes relatively small increase in cost of debt as compared to cost of equity
- As leverage increases WACC 1<sup>st</sup> falls because of tax saving shield.
- With further increase in leverage WACC fall to its minimum point which is the optimal point for capital structure
- Further increase in leverage causes increase in WACC because of bankruptcy risk

**Question No: 3 ( Marks: 1 ) - Please choose one**

Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as \_\_\_\_\_.

- ▶ Present value
- ▶ Simple interest
- ▶ Future value
- ▶ **Compound interest**

**Question No: 5 ( Marks: 1 ) - Please choose one**

You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

- ▶ **Profitability index (PI)**
- ▶ Net present value (NPV)
- ▶ Internal rate of return (IRR)
- ▶ Payback period (PBP)

**Question No: 14 ( Marks: 1 ) - Please choose one**

Which of the following factor(s) do **NOT** affects the movements in the market index?

- ▶ Macroeconomic factors
- ▶ Socio political factors
- ▶ **Social factors**
- ▶ All of the given options

**Question No: 16 ( Marks: 1 ) - Please choose one**

How much return would be offered by the stock whose (risk and return) pair lies below

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the SML?

- ▶ No return
- ▶ **Lower return**
- ▶ Average return
- ▶ Excessive return

**Question No: 19 ( Marks: 1 ) - Please choose one**

Which of the following is the market where tangible or physical asset change hand?

- ▶ Money market
- ▶ Capital market
- ▶ **Real asset market**
- ▶ Equity market

**Question No: 21 ( Marks: 1 ) - Please choose one**

Which of the following will be confronted by the management in deciding the optimal level of current assets for the firm?

- ▶ **A trade-off between profitability and risk**
- ▶ A trade-off between liquidity and risk
- ▶ A trade-off between equity and debt
- ▶ A trade-off between short-term versus long-term borrowing

**Question No: 22 ( Marks: 1 ) - Please choose one**

Which of the following is an example of a natural hedge?

- ▶ **The prices and costs are both determined in the global market place.**
- ▶ The prices are determined in the global market place and costs are determined in the domestic market place.
- ▶ The costs are determined in the global market place and prices are determined in the domestic market place.
- ▶ None of the given options is correct

**Question No: 23 ( Marks: 1 ) - Please choose one**

For which of the following strategy; economies of scale, market share dominance, and technological advances are reasons most likely to be offered to justify?

- ▶ Financial acquisition
- ▶ **Strategic acquisition**
- ▶ Divestiture
- ▶ Supermajority merger approval provision

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which of the following is incorrect regarding the costs and benefits of holding

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inventories and cash?

- ▶ The benefit of higher inventory levels is the reduction in order costs associated with restocking and the reduced chances of running out of material.
- ▶ The costs of higher inventory levels are the carrying costs, which include the cost of space, insurance, spoilage, and the opportunity cost of the capital tied up in inventory.
- ▶ Cash provides liquidity, but it doesn't pay interest. Securities pay interest, but you can't use them to buy things.
- ▶ **As financial manager you want to hold cash up to the point where the incremental or marginal benefit of liquidity is 25% higher than the cost of holding cash, that is, the interest that you could earn on securities.**

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following is the dividend that is normally paid to shareholders?

- ▶ Stock split
- ▶ Stock dividend
- ▶ Extra dividend
- ▶ **Regular dividend**

**Question No: 27 ( Marks: 1 ) - Please choose one**

A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria which of the following project will be accepted?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

- ▶ Project A
- ▶ Project B
- ▶ Project C
- ▶ **Project A & B**

**Question No: 29 ( Marks: 1 ) - Please choose one**

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8% compounded annually?

- ▶ **Rs.680.58**
- ▶ Rs.1,462.23
- ▶ Rs.322.69
- ▶ Rs.401.98

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**Question No: 30 ( Marks: 1 ) - Please choose one**

What will be the market risk premium for stock C if the average share of stock C has a required return of 15% and treasury bonds yield is 10%?

- ▶ 5%
- ▶ 10%
- ▶ 15%
- ▶ 25%

15%-10%= 5%

**Question No: 32 ( Marks: 1 ) - Please choose one**

On which of the following ground, the Arbitrage Pricing Model is different from the Capital Asset Pricing Model?

- ▶ It places more emphasis on market risk
- ▶ It minimizes the importance of diversification
- ▶ **It recognizes multiple systematic risk factors**
- ▶ It recognizes multiple unsystematic risk factors

**Question No: 33 ( Marks: 1 ) - Please choose one**

According to Traditionalist Theory, when a 100% Equity Firm takes on more and more debt, which of the following phenomenon is observed?

- ▶ Share Price first falls, then reaches minimum and finally rises
- ▶ Share Price first rises, then reaches minimum and finally falls
- ▶ **Share Price first rises, then reaches maximum and finally falls**
- ▶ None of the given options

Ref: Total Market Value of Firm ( $V = D + E = \text{Market Value of Debt} + \text{Market Value of Equity}$ ) first rises (because of Interest Tax Shield savings), then reaches a maximum point (optimal capital structure), and finally falls (because of excessive fall in NetIncome and Equity value because of interest payments).

**Question No: 34 ( Marks: 1 ) - Please choose one**

Which of the following formula represents the yield to maturity?

- ▶ Interest yield + Market price
- ▶ Capital gain yield + Book value
- ▶ **Interest yield + Capital gain yield**
- ▶ Market price + Capital gain yield

**Question No: 35 ( Marks: 1 ) - Please choose one**

Bird-in-the-hand dividend theory was proposed by which of the following?

- ▶ Miller Modigliani
- ▶ **Myron Gordon and John Lintner**
- ▶ Henry Fayol
- ▶ William John and Lehman

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**Question No: 36 ( Marks: 1 ) - Please choose one**

XYZ Corporation has offered its shareholders the option that their dividends will be used to purchase additional shares of this corporation. This offer of XYZ Corporation is referred as:

- ▶ Stock repurchases
- ▶ **Dividend reinvestment**
- ▶ Stock dividends
- ▶ Stock splits

**Question No: 37 ( Marks: 1 ) - Please choose one**

When  $IRR < WACC$  it means that:

- ▶ Investment is acceptable as required rate of return is less than cost of capital
- ▶ **Investment is not acceptable as required rate of return is less than cost of capital**
- ▶ Investment is acceptable as required rate of return is equal to the cost of capital
- ▶ None of the given options is true

**Question No: 38 ( Marks: 1 ) - Please choose one**

Which of the following statement depicts the disadvantage of issuing debt?

- ▶ Debt financing leads toward unlimited liability
- ▶ **If company doesn't pay interest, it can be close down**
- ▶ It can improve the return on equity
- ▶ Not fixed payment of interest is required by investors

**Question No: 39 ( Marks: 1 ) - Please choose one**

The decisions regarding capital structure of a firm are mainly concerned with which of the following?

- ▶ Assets side of balance sheet
- ▶ **Liabilities side of balance sheet**
- ▶ Expense side of profit and loss account
- ▶ Incomes side of profit and loss account

**Question No: 40 ( Marks: 1 ) - Please choose one**

If Current assets = Rs. 16,000,

Current liabilities = Rs. 10,000

Inventory = Rs. 2500

Calculate quick ratio for the firm?

- ▶ **1.35**
- ▶ 6.0

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- ▶ 1.60
- ▶ 0.25

$$= (\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$$
$$= (16000 - 2500) / 10000 = 1.35$$

**Question No: 41 ( Marks: 1 ) - Please choose one**

If an investor is risk averse, then which of the following options best suits him?

- ▶ Debentures
- ▶ Common stock
- ▶ **T –Bills**
- ▶ Preferred stock

**Question No: 43 ( Marks: 1 ) - Please choose one**

Which of the following is true regarding financial leverage?

- ▶ Whenever a firm's equity increases faster than its debt, financial leverage increases
- ▶ **Investors can undo the effects of the firm's capital structure by using home-made leverage**
- ▶ Increasing financial leverage will always increase the EPS for stockholders
- ▶ The level of financial leverage that produces the minimum firm value is the most beneficial to stockholders

**Question No: 44 ( Marks: 1 ) - Please choose one**

If a firm wants to use short-term bank loan to finance its temporary current assets and even to buy some of its permanent current inventory, then which of the following policy it is going to adopt?

- ▶ **Moderate working capital policy**
- ▶ Conservative working capital policy
- ▶ Aggressive working capital policy
- ▶ Any of the given policy

**Question No: 45 ( Marks: 1 ) - Please choose one**

Which of the following statements depicts the trade-off theory in a better way?

- ▶ It states a tradeoff between the costs and benefits of debt financing
- ▶ **It states the tradeoff between the debt financing and equity financing**
- ▶ There is tradeoff between assets and liabilities of the firm
- ▶ There is tradeoff between revenues and expenses of the firm

**Question No: 46 ( Marks: 1 ) - Please choose one**

Modigliani and Miller presented capital structure theory in which of the following years?

- ▶ 1950
- ▶ **1958**

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- ▶ 1963
- ▶ 1965

**Question No: 47 ( Marks: 1 ) - Please choose one**

In which of the following, synergies are not expected?

- ▶ Operating merger
- ▶ **Financial merger**
- ▶ Vertical Merger
- ▶ Horizontal Merger

**Ref: 2 Broad Categories of Mergers:**

- Pure Financial Merger - Operations remain independent
- Operating Merger - Operations are Integrated & Changed & Synergies Expected

**Question No: 48 ( Marks: 1 ) - Please choose one**

“Company X wants to merge with Company Y but Company X’s management is resisting the merger. Company X asks the shareholders of Company Y to tender their shares in exchange the offered price.” This statement refers to which of the following?

- ▶ Horizontal Merger
- ▶ Vertical Merger
- ▶ **Hostile Merger**
- ▶ Conglomerate Merger

**Reference 4 Specific Types of Mergers:**

- Horizontal Merger: merger of 2 competitors, can lead to Monopoly
- Vertical Merger: merger of a supplier with a buyer
- Co generic Merger: merger of firms in same industry
- Conglomerate Merger: merger of firms in unrelated industries

**Question No: 49 ( Marks: 1 ) - Please choose one**

What happens to the total risk when leverage increases at a slow rate?

- ▶ Total risk increases with slow rate than the leverage
- ▶ Total risk increases with decreasing rate
- ▶ Total risk remains the same
- ▶ **Total risk increases faster than the leverage**

**Question No: 51 ( Marks: 1 ) - Please choose one**

Which of the following is incorrect regarding Modigliani and Miller's (MM's) famous debt irrelevance proposition?

- ▶ It states that firm value can't be increased by changing capital structure
- ▶ MM show that the extra return and extra risk balance out, leaving shareholders no better or worse off
- ▶ MM's argument rests on simplifying assumptions i.e. efficient capital markets and ignores taxes and costs of financial distress

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- ▶ **Firm value increases when more debt is used**

Ref: As companies take more debt they are exposed to more financial risk.

**Question No: 52 ( Marks: 1 ) - Please choose one**

Which of the following refers to a unique type of Japanese corporate organization based on a close partnership between government and businesses?

- ▶ **Keiretsu**
- ▶ Chaebols
- ▶ Lean and mean
- ▶ Options

**Question No: 53 ( Marks: 1 ) - Please choose one**

Calculate the Forward Rate for Rupee if the interest on 1 Year Maturity in Pakistan is 10% and in Australia is 6% and the current spot rate is Rs.76/ AUD

- ▶ Rs. 6 per AUD
- ▶ Rs. 76 per AUD
- ▶ **Rs. 79 per AUD**
- ▶ Rs. 456 per AUD

Ref:  $F = S (\text{Rs. /AUD\$}) (1 + i_{\text{Rs.}}) / (1 + i_{\text{AUD\$}})$   
 $= 76(1+0.1) / (1+0.06)$   
 $= 78.87$

**Question No: 2 ( Marks: 1 ) - Please choose one**

Which group of ratios measures how effectively the firm is using its assets?

- ▶ Liquidity ratios
- ▶ Debt ratios
- ▶ **Coverage ratios**
- ▶ Activity ratios

**Question No: 4 ( Marks: 1 ) - Please choose one**

Assume that the interest rate is greater than zero. Which of the following cash-inflow streams totaling Rs.1, 500 would you prefer? The cash flows are listed in order for Year 1, Year 2, and Year 3 respectively.

- ▶ **Rs.700 Rs.500 Rs.300**
- ▶ Rs.300 Rs.500 Rs.700
- ▶ Rs.500 Rs.500 Rs.500
- ▶ Any of the above, since they each sum to Rs.1,500

**Question No: 8 ( Marks: 1 ) - Please choose one**

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\_\_\_\_\_ is a high-risk, high-yield bond.

- ▶ Zero coupon bond
- ▶ Mortgage bond
- ▶ **Junk bond**
- ▶ Income bond

**Question No: 11 ( Marks: 1 ) - Please choose one**

What is the price of a stock?

- ▶ The future value of all expected future dividends, discounted at the dividend growth rate
- ▶ The present value of all expected future dividends, discounted at the dividend growth rate
- ▶ The future value of all expected future dividends, discounted at the investor's required return
- ▶ **The present value of all expected future dividends, discounted at the investor's required return**

**Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following combinations will produce the highest growth rate? Assume that the firm's projects offer a higher expected return than the market capitalization rate.

- ▶ **A high plowback ratio and a high P/E ratio**
- ▶ A high plowback ratio and a low P/E ratio
- ▶ A low plowback ratio and a low P/E ratio
- ▶ A low plowback ratio and a high P/E ratio

**Question No: 13 ( Marks: 1 ) - Please choose one**

Diversification can reduce risk by spreading your money across many different \_\_\_\_\_

- ▶ Investments
- ▶ Markets
- ▶ Industries
- ▶ **All of the given options**

**Question No: 14 ( Marks: 1 ) - Please choose one**

The square of the standard deviation is known as the \_\_\_\_\_.

- ▶ Beta
- ▶ Expected return

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- ▶ Coefficient of variation
- ▶ **Variance**

**Question No: 15 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** a major cause of systematic risk.

- ▶ A worldwide recession
- ▶ A world war
- ▶ World energy supply
- ▶ **Company management change**

**Question No: 20 ( Marks: 1 ) - Please choose one**

Why markets and market returns fluctuate?

- ▶ Because of political factors
- ▶ Because of social factors
- ▶ Because of socio-political factors
- ▶ **Because of macro systematic factors**

**Question No: 24 ( Marks: 1 ) - Please choose one**

A firm that acquires another firm as part of its strategy to sell off assets, cut costs, and operates the remaining assets more efficiently is engaging in \_\_\_\_\_.

- ▶ A strategic acquisition
- ▶ **A financial acquisition**
- ▶ Two-tier tender offer
- ▶ Shark repellent

**Question No: 25 ( Marks: 1 ) - Please choose one**

When a firm can acquire another firm?

- ▶ Only by purchasing the assets of the target firm
- ▶ Only by purchasing the common stock of the target firm
- ▶ **By either purchasing the assets or the common equity of the target firm**
- ▶ None of the given options

**Question No: 26 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** a type of financial lease arrangement?

- ▶ Sale and leaseback
- ▶ **Indirect leasing**
- ▶ Leveraged leasing
- ▶ All of the given options

**Question No: 27 ( Marks: 1 ) - Please choose one**

The Board of Directors announces the amount and date of the next dividend on the

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\_\_\_\_\_ date; while the \_\_\_\_\_ date is the first date on which the purchaser of a stock is no longer entitled to the recently declared dividend.

- ▶ Declaration; record
- ▶ Ex-dividend; record
- ▶ **Declaration; ex-dividend**
- ▶ Payment; record

**Question No: 28 ( Marks: 1 ) - Please choose one**

What would you expect to happen to the price of a share of stock on the day it goes ex-dividend?

- ▶ **The price should increase by the amount of the dividend**
- ▶ **The price should decrease by the amount of the dividend**
- ▶ The price should decrease by one-half the amount of the dividend
- ▶ The price should remain constant

**Question No: 29 ( Marks: 1 ) - Please choose one**

What is the amount of the annual interest tax shield for a firm with Rs. 3 million in debt that pays 12% interest if the firm is in the 35% tax bracket?

- ▶ **Rs.126, 000**
- ▶ Rs.234, 000
- ▶ Rs.360, 000
- ▶ Rs.1, 050,000

$$\text{Tax Shield} = (\text{debt} \times \text{interest rate}) \times \text{tax rate}$$
$$= (3,000,000) \times 12\% \times 35\%$$

**Question No: 30 ( Marks: 1 ) - Please choose one**

While calculating the Stock Portfolio Risk using 3x3 Matrix Approach, non-diagonal terms shown in Boxes are called:

- ▶ Variance
- ▶ Coefficient
- ▶ **Covariance**
- ▶ Correlation

**Question No: 31 ( Marks: 1 ) - Please choose one**

While calculating the stock beta graphically, the formula to calculate the beta coefficient for stock B is:

- ▶  $(r_M^* - r_{RF}) / (r_B^* - r_{RF})$
- ▶  **$(r_B^* - r_{RF}) / (r_M^* - r_{RF})$**
- ▶  $(r_B^* - r_{RF}) / r_{RF}$
- ▶  $(r_B^* - r_{RF}) / r_M^*$

$$\text{Slope} = \text{Beta} = \Delta Y / \Delta X = \% \Delta r_A^* / \% \Delta r_M^*$$
$$= \text{A} = \text{Risk Relative to Market} = (r_A^* - r_{RF}) / (r_M^* - r_{RF})$$

**Question No: 32 ( Marks: 1 ) - Please choose one**

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While analyzing any portfolio the value of “r” represents which of the following?

- ▶ Internal rate of return
- ▶ Expected rate of return
- ▶ **Required rate of return**
- ▶ Assumed rate of return

**Question No: 33 ( Marks: 1 ) - Please choose one**

If a stock is part of totally diversified portfolio then which of the following is TRUE for that stock?

- ▶ Stock's total Risk = Company Risk
- ▶ Stock's total Risk = Market Risk
- ▶ **Stock's total Risk = Market Risk + Company Risk**
- ▶ All of the given options

**Question No: 34 ( Marks: 1 ) - Please choose one**

High uncertainty is associated with which of the following?

- ▶ Preferred stock
- ▶ **Common stock**
- ▶ Bonds
- ▶ T-Bills

**Question No: 35 ( Marks: 1 ) - Please choose one**

The date on which the names of stockholders in the Stock Transfer Register of firm are documented is referred as:

- ▶ Declaration Date
- ▶ **Holder-of-record Date**
- ▶ Ex-Dividend Date
- ▶ Payment Date

**Question No: 36 ( Marks: 1 ) - Please choose one**

Operating revenue can be calculated from which of the following formulas?

- ▶ Operating Revenue = Fixed cost \* Quantity + Variable cost
- ▶ Operating Revenue = Price / Quantity + Variable cost
- ▶ Operating Revenue = Sale price \* Quantity
- ▶ Operating Revenue = Variable cost \* Quantity / Fixed cost

**Question No: 37 ( Marks: 1 ) - Please choose one**

Which of the following statements is **TRUE** about an aggressive approach to finance working capital?

- ▶ Financing seasonal requirements of current assets with short-term debt and permanent requirement of current assets with long term debt
- ▶ Financing permanent requirements of current assets with short-term debt and

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seasonal requirement of current assets with long term debt

▶ **Financing seasonal as well as permanent requirements of current assets with short-term debt**

▶ Financing seasonal as well as permanent requirements of current assets with long term debt

**Question No: 39 ( Marks: 1 ) - Please choose one**

All of the following are the examples of permanent financing **EXCEPT:**

- ▶ Common Equity
- ▶ **Current Liabilities**
- ▶ Long-term Loans
- ▶ Bonds

**Question No: 40 ( Marks: 1 ) - Please choose one**

Which of the followings proposes that the value of the firm is independent of its capital structure?

- ▶ The Capital Asset Pricing Model
- ▶ **M&M capital structure theory**
- ▶ The law of variable proportion
- ▶ The Law of One Price

**Question No: 41 ( Marks: 1 ) - Please choose one**

Value of the firm can be calculated with the help of which of the following formulas?

- ▶ **Price of a share x No. of shares outstanding**
- ▶ Price of a share x debt / equity
- ▶ Price of a share / No. of shares outstanding
- ▶ Price of a share x earnings after tax / equity

**Question No: 42 ( Marks: 1 ) - Please choose one**

If the sales are expected to be poor in future than management wants to raise capital through which of the following:

- ▶ Debt financing
- ▶ **Equity financing (common & preferred stock) not sure**
- ▶ Term finance certificates
- ▶ National saving certificates

**Question No: 43 ( Marks: 1 ) - Please choose one**

Company A has to purchase another company. How do Company A pay for buying the other company?

- ▶ In Cash
- ▶ In Shares
- ▶ Bank Borrowing
- ▶ **All of the given options**

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**Question No: 44 ( Marks: 1 ) - Please choose one**

Which of the following mathematical expressions depicts divestiture?

- ▶  $5-1=4$
- ▶  $5-1=6$
- ▶  $5+1=6$
- ▶ **None of the given options**

Disposition or sale of an asset by a company. A company will often divest an asset which is not performing well, which is not vital to the company's core business, or which is worth more to a potential buyer or as a separate entity than as part of the company.

**Question No: 45 ( Marks: 1 ) - Please choose one**

Under efficient market, the effect of debt on WACC can be represented with the help of which of the following?

- ▶ **Straight line**
- ▶ U shaped curve
- ▶ Concave
- ▶ Time to time fluctuation

**Question No: 46 ( Marks: 1 ) - Please choose one**

Under traditional view, the effect of debt on WACC can be represented with the help of which of the following?

- ▶ Straight line
- ▶ **U shaped curve page 146**
- ▶ Concave
- ▶ Time to time fluctuation

**Question No: 47 ( Marks: 1 ) - Please choose one**

According to the trade off theory, value of the firm rises as a result of \_\_\_\_\_.

- ▶ **Tax saving**
- ▶ Increase in EPS
- ▶ Increase in EBIT
- ▶ Saving in cost of debt

But in case of trade off theory in reality initially value of the firm rises as there is interest tax saving but with excessive leverage

**Question No: 48 ( Marks: 1 ) - Please choose one**

Which of the following statements is true about business risk?

- ▶ The financial risk of a firm decreases when it takes on a risky project
- ▶ The financial risk of a firm increases when it takes on more equity
- ▶ **The business risk of a firm increases when it takes on a risky project**
- ▶ The business risk of a firm increases when it takes on more debt

**Question No: 49 ( Marks: 1 ) - Please choose one**

Under Net income approach, which of the following is a correct sequence of calculating cost of capital?

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- ▶ Net income – Total firm's market value – WACC
- ▶ Net income – WACC – total firm's market value
- ▶ WACC – Net income – market value of equity
- ▶ Market value of firm – WACC – Net income

**Question No: 50 ( Marks: 1 ) - Please choose one**

From which of the following equations, net income can be calculated?

- ▶ **NI = (EBIT -  $x_D r_D$ ) (1 - Tc)**
- ▶ NI = (EAT -  $x_D r_D$ ) (1 - Tc)
- ▶ NI = (EBIT +  $x_D r_D$ ) (1 - Tc)
- ▶ NI = (EBIT -  $x_D r_D$ ) / (1 - Tc)

E = Net Income (NI) / Cost of Equity for levered firm ( $r_{E,L}$ )

Note that NI = EBIT - Interest - Tax = EBT – Tax

NI = (EBIT -  $x_D r_D$ ) (1 - Tc)

**Question No: 51 ( Marks: 1 ) - Please choose one**

Which of the following refers to a unique type of Japanese corporate organization based on a close partnership between government and businesses?

- ▶ **Keiretsu**
- ▶ Chaebols
- ▶ Lean and mean
- ▶ Options

**Question No: 52 ( Marks: 1 ) - Please choose one**

Which of the following is a South Korea type business in that is a conglomerate with Monopoly power?

- ▶ Keiretsu
- ▶ **Chaebols**
- ▶ Lean and mean
- ▶ Options

**Question No: 53 ( Marks: 1 ) - Please choose one**

What is bid rate for currency?

- ▶ **Buying rate for currency**
- ▶ Selling rate of currency
- ▶ Forward rate of currency
- ▶ Ask rate of currency\

**Question No: 54 ( Marks: 1 ) - Please choose one**

What is the primary principle for money changers?

- ▶ Ask rate should be less than bid rate
- ▶ **Ask rate should be greater than bid rate**
- ▶ Ask rate should be equal to bid rate
- ▶ Bid rate should be greater than ask rate

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A 5- years ordinary annuity has a future value of Rs. 1000, if the interest rate is 8%, the amount of each annuity payment is closest to which of the following?

- Rs.231.91
- Rs.184.08
- Rs.181.62
- **Rs.170.44**

Pls use excel this formula =PMT(0.08,5,0,1000,0)

If arbitrage opportunity are to be ruled out what would be the expected excess return of each well diversified portfolio?

- Inversely proportional to the risk free rate
- Inversely proportional to its standard deviation
- Proportional to its standard deviation
- **Proportional to its Beta coefficient**

**Question No: 6 ( Marks: 1 ) - Please choose one**

Interest payments, principal payments, and cash dividends are \_\_\_\_\_ the typical budgeting cash-flow analysis because they are \_\_\_\_\_ cash flows.

- ▶ Included in; financing
  - **▶ Excluded from; financing**
- ▶ Included in; operating
- ▶ Excluded from; operating

**Question No: 7 ( Marks: 1 ) - Please choose one**

Which of the following make the calculation of NPV difficult?

- ▶ Estimated cash flows
- ▶ Discount rate
- ▶ Anticipated life of the business
- **▶ All of the given options**

**Question No: 8 ( Marks: 1 ) - Please choose one**

If a company issues bonus shares, what will be its effect on the debt equity ratio?

- ▶ **It will improve**
- ▶ It will deteriorate
- ▶ **No effect**
- ▶ None of the given options

**Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

- ▶ Systematic risk

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- ▶ Standard deviation
- ▶ **Unsystematic risk**
- ▶ Financial risk

**Question No: 13 ( Marks: 1 ) - Please choose one**

Which of the following is a drawback of percentage of sales method?

- ▶ It is a rough approximation
- ▶ There is change in fixed asset during the forecasted period
- ▶ Lumpy assets are not taken into account
- ▶ **All of the given options**

**Question No: 23 ( Marks: 1 ) - Please choose one**

Your firm has a philosophy that is analogous to the hedging (maturity matching) approach. Which of the following is the most appropriate non-spontaneous form for financing the excess seasonal current asset needs?

- ▶ Trade credit
- ▶ 6-month bank notes
- ▶ Accounts payable
- ▶ **Common stock equity**

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which of the following is the common currency created by the group of European countries?

- ▶ The EU currency
- ▶ The European Union
- ▶ The EMU
- ▶ **The Euro**

**Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following signals is most likely to elicit a decrease in share price for slow growth utility company that currently pays a small dividend?

- ▶ A repurchase of 5% of the firm's stock
- ▶ An unexpected increase in the regular quarterly dividend
- ▶ **An unexpected decrease in the regular quarterly dividend**
- ▶ Borrowing funds in order to pay a cash dividend

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which term would most likely be associated with the phrase "actions speak louder than words?"

- ▶ Incentive signaling
- ▶ Shareholder wealth maximization
- ▶ **Financial signaling**
- ▶ Optimal capital structure

**Question No: 34 ( Marks: 1 ) - Please choose one**

All of the following are the components of CML (capital market line) equation EXCEPT:

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- ▶ Risk free rate of return
- ▶ Risk of the market
- ▶ Risk of stock portfolio
- ▶ Net present value

**Question No: 35 ( Marks: 1 ) - Please choose one**

In NPV (Net Present Value) calculations, which of the following is used?

- ▶ Excepted rate of return
- ▶ Required rate of return
- ▶ Both expected rate of return and Required rate of return
- ▶ None of the given options

**Question No: 36 ( Marks: 1 ) - Please choose one**

If Share A's Beta = +2.0 then it represents which of the following?

- ▶ Share is twice as risky (or volatile) as the KSE market
- ▶ Share is exactly as risky (or volatile) as the KSE market
- ▶ Share is half as risky (or volatile) as the KSE market
- ▶ Share would be exactly as volatile as the KSE market BUT in the opposite way

**Question No: 37 ( Marks: 1 ) - Please choose one**

Beta coefficient is actually the slope of the line that shows the relationship between which of the following?

- ▶ Stock required rate of return on x-axis and market rate of return on y-axis
- ▶ Stock required rate of return on y-axis and market rate of return on x-axis
- ▶ Stock expected rate of return on y-axis and market rate of return on x-axis
- ▶ Stock required rate of return on y-axis and stock expected rate of return on x-axis

**Question No: 39 ( Marks: 1 ) - Please choose one**

According to Traditionalist Theory, when an un-leveraged firm takes on more and more debt, which of the following phenomenon is observed?

- ▶ Cost of Capital increases, reaches a minimum point, and then falls
- ▶ Cost of Capital decreases, reaches a minimum point, and then rises
- ▶ Cost of Capital increases, reaches a maximum point, and then rises
- ▶ None of the given options

**Question No: 40 ( Marks: 1 ) - Please choose one**

In the WACC equation ( $r_D X_D + r_E X_E + r_P X_P$ ),  $X_E$  represents which of the following?

- ▶ Weight or Fraction of Total Capital value raised from bonds
- ▶ Weight or Fraction of Total Capital value raised from preferred stock
- ▶ Weight or Fraction of Total Capital value raised from common stock
- ▶ Weight or Fraction of Total Capital value raised from debentures

**Question No: 41 ( Marks: 1 ) - Please choose one**

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In the WACC equation ( $r_D X_D + r_E X_E + r_P X_P$ ),  $X_D$  represents which of the following?

- ▶ Weight or Fraction of Total Capital value raised from bonds
- ▶ Weight or Fraction of Total Capital value raised from preferred stock
- ▶ Weight or Fraction of Total Capital value raised from common stock
- ▶ Weight or Fraction of Total Capital value raised from retained earnings

**Question No: 42 ( Marks: 1 ) - Please choose one**

Which of the following represents the tax shield?

- ▶ Interest on capital
- ▶ Dividends to shareholders
- ▶ Retained earnings
- ▶ Establishment expenses

**Question No: 43 ( Marks: 1 ) - Please choose one**

On declaration date of dividend, if ABC Company announces dividend higher than the previous years, which of the following phenomenon is likely to be observe?

- ▶ Stock price falls
- ▶ Stock price rises
- ▶ Stock price remains the same
- ▶ None of the given options

**Question No: 45 ( Marks: 1 ) - Please choose one**

ABC Company moves from a "conservative" working capital policy to an "aggressive" policy. Which of the following results it should expect to achieve?

- ▶ Liquidity to decrease, whereas expected profitability would increase
- ▶ Expected profitability to increase, whereas risk would decrease
- ▶ Liquidity would increase, whereas risk would also increase
- ▶ Risk as well as profitability to decrease

**Question No: 46 ( Marks: 1 ) - Please choose one**

Mr. A, a sole proprietor has purchased the raw material on credit; this transaction has generated which of the following?

- ▶ Permanent Financing
- ▶ Spontaneous Financing
- ▶ Short-term Loan
- ▶ All of the given options

**Question No: 47 ( Marks: 1 ) - Please choose one**

Capital structure that minimizes the WACC is also a structure that maximizes the firm's \_\_\_\_\_.

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- ▶ Earnings before interest & taxes (EBIT)
- ▶ Earning after tax (EAT)
- ▶ **Earning per share (EPS) not sure**
- ▶ Return on equity (ROE)

**Question No: 48 ( Marks: 1 ) - Please choose one**

In calculations regarding lease, net advantage of leasing is the difference between which of the following?

- ▶ Present value of net cash flows and present value of cost of leasing
- ▶ **Present value of cost of owning the asset and present value of cost of leasing**
- ▶ Present value of cost of owning the asset and present value of net cash flows
- ▶ None of the given options

**Question No: 49 ( Marks: 1 ) - Please choose one**

A car manufacturing firm buys steel from a steel mill. Both these entities combined together to form a new firm. It is referred to which of the following?

- ▶ Horizontal Merger
- ▶ **Vertical Merger**
- ▶ Congeneric Merger
- ▶ Conglomerate Merger

**Question No: 50 ( Marks: 1 ) - Please choose one**

Which of the following is a form of divestiture in which a subsidiary or division becomes an independent company?

- ▶ Sell-off
- ▶ **Spin-off**
- ▶ Liquidation
- ▶ Merger

**Question No: 52 ( Marks: 1 ) - Please choose one**

Which of the following is the formula to calculate the tax shield?

- ▶ **Corporate tax rate x Market value of debt**
- ▶ Corporate tax rate / Market value of debt
- ▶ Corporate tax rate + Market value of debt
- ▶ Corporate tax rate - Market value of debt

**Question No: 53 ( Marks: 1 ) - Please choose one**

Which one of the following is correct for the spot exchange rate?

- ▶ It is the effective exchange rate for a foreign currency for delivery at a specific location on a specific future date
- ▶ **It is the effective exchange rate for a foreign currency for immediate delivery at a specific location**
- ▶ It is the effective exchange rate for a foreign currency for delivery at a specific

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future date

► It is the effective exchange rate for a foreign currency for delivery on the current day

**Question No: 54 ( Marks: 1 ) - Please choose one**

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**What is the primary principle for money changers?**

- Ask rate should be less than bid rate
- Ask rate should be greater than bid rate
- Ask rate should be equal to bid rate
- Bid rate should be greater than ask rate

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